HOUSE OF COMMONS

# Work and Pensions Committee

## Oral evidence: Pension auto-enrolment: update, HC 1863

Wednesday 23 January 2019

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[Watch the meeting]

Members present: Frank Field (Chair); Heidi Allen; Ruth George; Steve McCabe; Nigel Mills; Chris Stephens, Derek Thomas.

Questions 1 – 87

### Witnesses

I: Zoe Alexander, Director of Strategy, NEST, Adrian Boulding, Director of Policy, NOW: Pensions, Colin Clarke, Head of Product Policy Strategy, Legal and General, Investment Management, and Gregg McClymont, Director, Policy and External Affairs, The People's Pension.

# Examination of Witnesses

Zoe Alexander, Adrian Boulding, Colin Clarke, and Gregg McClymont.

Q1 **Chair:** Welcome. Might you begin, Zoe, by introducing yourself for the record?

***Zoe Alexander:*** My name is Zoe Alexander. I am Director of Strategy at NEST Corporation.

***Adrian Boulding:*** Good morning. My name is Adrian Boulding. I am Director of Policy at NOW:Pensions, an automatic enrolment master trust with nearly 2 million members.

***Colin Clarke:*** Good morning. I am Colin Clarke. I am Head of Product Policy Strategy for Legal & General Investment Management.

***Gregg McClymont:*** Good morning. I am Gregg McClymont, Director of Policy and External Affairs at The People's Pension.

**Chair:** Great. Can I stress, we do not want to necessarily pressurise you all to answer every question, but if you have something different to add, that will be really good. Ruth, will you begin, please?

Q2 **Ruth George:** I will give you an easy starter that would be useful to have all your views on if they differ from those that have come before. Zoe, to start with you and move along, the Committee in the previous Parliament described auto-enrolment as a tremendous success and obviously we now have millions more people in pensions. Is it still the case that it is a success now that the market is starting to mature?

***Zoe Alexander:*** I would say absolutely it is. We have seen a phenomenal impact in terms of inertia working in the way that people anticipated that it would. We now have nearly 10 million people saving; in NEST alone, we have 7.4 million members, of whom around half are active at any one time; 600,000 employers. In particular, when you look at the impact on lower earners and on women who might previously not have been saving, we have many more people saving. In terms of providing a structural foundation for second-tier saving in the private sector, we are in a phenomenal place. I think it is a foundation.

There are some big questions now for Government and for the industry in terms of how we build on that foundation and continue to make a success of the policy. There are two things I would bring out in that respect. One is how we try to get people saving at the right level for them and we bring in excluded groups who might otherwise be saving, but are not captured by auto-enrolment, like the self-employed and people like multiple job holders. I think there are some finely-balanced policy judgments to be made about how you do that and how you get people saving at the right level, because structurally, if you look at 8%, when we get to 8% in April this year, we have come a long way.

However, it is nowhere near the kind of levels that people are saving at in other OECD countries, so do we push it higher? I think there will be lots of voices saying, "Let's push it higher", but at the same time lots of our membership is earning persistently between £10,000 and £18,000 and for them it is a real hit. Particularly if you remove the LEL—the lower earnings limit—which we are very supportive of, if you are earning persistently £12,000 or £13,000, 8% of your whole salary is a lot of money.

Are there things we do, as potentially we push contributions up, to make it palatable for those people to continue to save? That is why NEST is looking at building elements of liquidity into savings through our sidecar trial. Can you enable people to build a liquid asset alongside their pension saving in a sustainable way? There are lots of ideas there. I think there is a lot of thinking still to do to get those judgments right.

The other thing I would just briefly say is about retirement. We need to think about, in the context of freedom in choice, how we help people make that transition from an inert state generally in accumulation through to decumulation in a safe way that works for them.

**Chair:** Does anyone have anything new to add to that?

***Adrian Boulding:*** Yes, if I might. I think the key thing is that auto-enrolment has been a great success for middle earners, but not for low earners. The £10,000 threshold that you are required to earn excludes 3.3 million people from partaking in auto-enrolment. The £6,132 that you do not get counted towards saving is particularly harsh on part-timers because it is a large proportion of their earnings. If you are a part-timer with more than one job, it is deducted at each of your jobs.

**Chair:** Adrian, do you think for those on very low earnings there should be a Universal Credit payment directed to it? We shovel money for pensions to the very rich. Could we not use Universal Credit to pay for poorer people's contributions?

***Adrian Boulding:*** Pension contributions—I think that would be an excellent idea, yes.

The point where I am particularly concerned about low earners is that there are two forms of tax relief and roughly half of the auto-enrolment schemes follow the net pay system of tax relief. It is great for medium and high earners; it has a particular disadvantage for low earners, in that somebody who is not a taxpayer in a net pay scheme, so an individual earning below £12,500 does not get tax relief. At worst, for somebody at £12,500, that costs them £64 per year. The way that tax system works, that is £64 out of their take-home pay, an amount of money that might pay for a child's school uniform, for instance. It is just a quirk of the tax system that those in relief at source schemes get those, and those in net pay schemes are denied that. We have pushed the Treasury hard on this and we will continue to push hard on it.

**Chair:** We may do so as well. Thank you.

***Colin Clarke:*** Within Legal & General, we have enrolled over 2.9 million people since the start. Our opt-out rates have been consistently low. The average opt-out rate that we have had since the beginning is about 6.2%, and even for re-enrolment rates, although they are not as low as the first time opt-out rates, it is about 30% for re-enrolment. But we think that is a good news story, because that means that 70% of people who were enrolled and opted out the first time have decided to stay in the second time.

Q3 **Chair:** Gregg, you have the best name of all these. What is the scope of your organisation before you answer Ruth's questions, please?

***Gregg McClymont:*** Thank you, Frank. The People's Pension is 4.25 million members, it serves 85,000 employers and currently has assets of around £5 billion, depending on market movements on any given day. It has a background in serving the construction industry specifically in terms of pension arrangements. Since auto-enrolment has expanded to serve the whole population, it also finds itself as the largest master trust outside of the Government-backed scheme, NEST.

In answer to your question, I will make two points that build on what has been said so far. The first is that auto-enrolment has been a success—so far so good—but of course there are always bumps in the road. It is always worth remembering, however, that that reflects an unusual process of genuine long-term policy making and cross-party consensus. It started, as you will be aware, in the 2011 Parliament. The 2005 Parliament took the Pensions Commission recommendations and legislated. The 2010 Parliament proceeded with auto-enrolment and got the staging in a good place; in the 2015 Parliament, there was master trust authorisation to strengthen the protections for customers. I think that is central to the success.

The second thing is about long-term policymaking, and importantly, going with the grain of human nature. The fact is that most of us prefer to favour the short term to the long term. Harnessing that inertia, as Zoe pointed out, has been powerful. There is a question about what happens when contributions rise significantly in April to 8%, so we should not count our chickens. People have a tendency to confound experts, as we know only too well, so I think we have to be cautious about April. But beyond April, if things go well, I would raise again the issue that has already been alluded to, which is how do we make auto-enrolment, based on that inertia, about long-term saving work with pensions freedom, which is based of course having to make some pretty complex decisions at retirement.

Our view would be that the answer is probably to focus on making the retirement decisions as simple as possible rather than hoping to turn 10 million people overnight from savers into investors.

Q4 **Ruth George:** It is good to see that there are low levels of opt-out. Have any of you noticed any difference between age, gender, levels of income with the proportions of people that are opting out?

***Adrian Boulding:*** Yes. We notice a particular age correlation. Our average opt-out rate is 9%, but for people below age 35 it is only 5.7%. It is highest at the people above 55. We notice a slight gender correlation, that women are slightly more likely to opt out at all age groups than men.

I draw two things out of the age thing in particular. I draw an enthusiasm for young people to save in a pension plan and I translate that to endorsing the suggestions from the last review that the Minister did to decrease the age of entry down from 22 to 18. I worry about the older people that do not join. I think they are people who have probably declined pension membership many times throughout their career, but if you join a pension scheme shortly before retirement, you get fantastic value for money out of those contributions, so I am out there evangelising it and encouraging them to join.

***Zoe Alexander:*** I would add to that briefly. The DWP did some work with HMRC and looked at real-time earnings information, so a very national-level look at this. What they found was similar. They found older people more likely to opt out, higher earners more likely to opt out and men more likely to opt out, but they are tiny numbers; you are talking about the difference between 0.6 and 0.7 levels of opt-out, so very marginal differences. I agree with you, Adrian, that it is important to save in later life, but I think some of those judgments might be legitimate where people already have strong DB savings, maybe they are coasting towards retirement and maybe they are a higher earner. I would not read too much into it myself.

Q5 **Ruth George:** It is interesting that younger people are not opting out, where they may be in short-term transient jobs, and one may wonder where they might see that pension in 50 years' time maybe. For young people in particular, there is a large amount of complicated paperwork that comes with their auto-enrolment pension. Is there any way that that can be simplified so that young people can get a greater understanding of what they are getting? While inertia might be a good thing in the big scheme of things, young people feeling that they are not making enough money to be able to rent a property or feeling that their money just disappears, whether it is tax, National Insurance, whatever, it is not a good thing for them not to be understanding what is happening. How clear is the information that comes to people with their auto-enrolment pension and could it be made any clearer?

***Colin Clarke:*** Could I answer that, if I may? We have recently trialled some digital ways of engaging with people, and we recently launched a video, "Benefit Statement", where there is an animation that shows the potential income they could get from their contributions. It is also a nudge to try to encourage members to make use of employer matching contributions as well. Quite a few of our employers offer step-ups. If the employee is willing to contribute a bit more, then the employer is willing to match those contributions.

The work that we have done so far has had a very good engagement rate and lots of positive feedback from people. Over a third of people have gone through and clicked through and have increased their contributions. We think digital and new ways of engaging with people is the way forward.

***Gregg McClymont:*** I think the digitalisation of pensions will help. That is something that hopefully in the long term the pensions dashboard will ease, but I do think we have to be honest as well about the fact that auto-enrolment is a defined contribution scheme, therefore there is no certainty about what one is getting. People are not stupid, they know that. Therefore you can do as much as possible in statements to give a projection of where one might get to, but in the end that is uncertain. I think we have to bear that in mind when we are thinking about this context.

Q6 **Chair:** Gregg, do you think there is any role for a hybrid scheme then?

***Gregg McClymont:*** That is something of course, Chair, that the CDC debate is bringing out into the open. The biggest pension scheme in the UK, the Universities Superannuation Scheme, has moved to a hybrid scheme, with a DC section for those earning above a certain amount. Their pensionable pay is capped at around £55,000, as I understand it, and they move to DC on any earnings above that. There is lots of work going on around the world looking at what an ideal pension system is, but what I would say is that auto-enrolment has been a big success so far. It has brought in 10 million, or just under. Of course we all say that, but it is a significant thing in itself.

I think we have to proceed with auto-enrolment in a clear-eyed way, because that is part of its success, that it has been signposted, the various stages of auto-enrolment. Governments have stuck to those stages. It has allowed providers to plan their approach to auto-enrolment, so we need to do that, while being aware that of course other things are going on at the same time and the possibility of hybrid schemes is one of those things.

***Zoe Alexander:*** I would add very briefly to that. On the CDC question, quite a lot of the benefits that one might derive from a CDC scheme can be derived from an element of risk sharing in retirement. Part of what NEST and others have been talking about for a while in terms of default retirement pathways is an element of risk sharing and mortality pooling later in life so that you income-smooth and de-risk your assets as you move towards the latter years of drawing your pension. I think there are degrees and degrees of CDC; there is no one kind of definition. We are also watching with interest what happens with the schemes in the UK that are going to bring it in, and international experience as well, but I think we could immediately derive some of those benefits by developing more innovative default retirement pathways as an industry.

***Gregg McClymont:*** Adding to that, retirement is the phase where potentially a hybrid approach has value. In our view, some of the claims made for CDC in the accumulation phase are overdone. They can be achieved by the scale that large master trusts are accruing, but how do you deliver retirement income with some degree of certainty? That is where that hybrid approach is potentially worth looking at.

Q7 **Heidi Allen:** Drawing further on a couple of points we just talked about, the age of people and the whole middle class-ness and whether lower earners benefit from this, the DWP looked at how successfully the policy was working as a whole at the end of December and came up with a couple of suggestions. One was to drop the auto-enrolment age from 22 to 18 and one was to take away the earnings threshold totally, which could benefit people who perhaps have lots of little jobs earning them small amounts. Do any of you have a view as to whether they are the right proposals and whether they should be done swiftly? Perhaps start with Adrian and then Zoe.

***Adrian Boulding:*** Yes, I think both of those are good. Our survey work has shown that two thirds of 18 to 22 year-olds would welcome being automatically enrolled in a pension scheme.

On removing the lower earnings limit and counting pension contributions from the first pound of earnings, I am particularly struck by the difference that that would make. Although the headline contribution rate for auto-enrolment today is 8%, nobody gets 8%, because there is a bit knocked off the bottom and a bit knocked off the top. The best that anybody gets is somebody who is absolutely on the top ceiling of £46,000, and they get 6.9%. The worst that anybody gets is somebody who is down at the bottom end, at the £10,000 minimum for enrolment. They get just 3.2%. We rather like the phrase, "Eight means 8" and we would like to see the £6,132 gradually phased away. I think it needs to be phased away, because it will be a big increase in contributions and it is not a good idea to put big increases on either the employees or the employers in one go, but I think it is the right thing to do, to get rid of it, and eventually to be counting all earnings from the first pound for pensions.

Q8 **Heidi Allen:** The age dropping from 22 to 18—would you support that?

***Adrian Boulding:*** Yes.

***Zoe Alexander:*** I would agree with what Adrian said. On the LEL, we would support removing it. It is a big jump. If you are earning, let's say £11,000, it is a big jump, so we need to think about that and how we smooth that and what impact it might have, but we would still support it broadly.

The age limit, however, I want to highlight. It has a big impact for women. For a lot of women, those years from 18 to 21 are critical earning years, especially for women who are going to take a section of time out of the workforce. I think from that perspective particularly it is interesting. I am part of a group run by the CII looking at women's policy in relation to pensions and game-changers that we can try to enact that would make a real difference to women. As part of that, as well as supporting those two proposals, we are looking at the levels of the earnings trigger, which currently excludes a lot of women, and also credits for carers potentially. Previously under SERPS and S2P, if you were caring, you would be credited into your pension. At the moment we do not do that. It is a very complex, quite difficult political question about how you would do that.

Q9 **Chair:** Shouldn't we just give them the money?

***Zoe Alexander:*** You could just give them the money. It is early-stage thinking. There are lots of different ways you could do it. It is a pretty complex thing to do, but at the moment we are just banking the contribution that carers make to the economy and we are not giving them anything in second-tier savings.

Q10 **Chair:** When they are looking after families, what is the difference, in your mind, between credits and Universal Credit paying the cash?

***Zoe Alexander:*** You could pay them cash. It is whether you want systematically to direct that saving into a second-tier pension or not. There are lots of different ways that you could recompense people for that caring, and there are lots of different directions you could send the money.

Q11 **Chair:** If I am qualified as a carer and I get a credit, what does a credit mean compared with Universal Credit paying my contributions?

***Zoe Alexander:*** You could do either.

**Heidi Allen:** You might not be on UC as a carer. You could be, but you might not.

Q12 **Chair:** What does a credit mean? Who credits what? Pension schemes are about having money, not having credits.

**Heidi Allen:** But it would go into a pension scheme at some point.

***Zoe Alexander:*** What I mean is a sum of money would go from the Government into the pension scheme, which is set at a notional level, depending on how much politically we would want to put into that.

Q13 **Heidi Allen:** So when you go back into work, you are then adding to it. It is sitting there waiting for you.

***Zoe Alexander:*** Exactly, yes.

Q14 **Nigel Mills:** I am a little confused about the logic of this, because the whole idea of having a single-tier state pension was that the Government said, "This is enough to get you above the poverty line. If you want more, save for it and you can have it and you can keep it and we will not reduce your other benefits in retirement if you do". Doesn't then trying to re-add a kind of state-funded second-tier pension completely unravel the whole logic of having a single-tier pension?

***Zoe Alexander:*** This particular thought is simply acknowledging that previously when we had a second-tier pension, when we had S2P and SERPS, we got to a position politically where people were comfortable with the idea that caring responsibilities should be acknowledged in that. At the moment we have recreated second-tier saving and those caring responsibilities are not recognised in that. I do not have a particular solution. I was raising it in the context of women's experiences and how they are doing in terms of auto-enrolment and what they are accruing. That is important.

Q15 **Heidi Allen:** Is that something that DWP have looked at, do you know, or is this just something that you are—

***Zoe Alexander:*** It is something that the Insuring Women's Futures workstream that I am on is starting to look at. We will be discussing it with the DWP, but those conversations are at an early stage.

**Heidi Allen:** It is perhaps something we could ask as a question to the DWP, whether they have thought about it.

Q16 **Chair:** I am still puzzled, Zoe, because under SERPS and those others there were credits, but there was never any investment, so you could issue credits to your heart's content, but it made up people's contribution record for eligibility. These are pensions based on assets and therefore I am anxious that people should have their assets and it should be paid in on time so that their assets accumulate value.

***Zoe Alexander:*** The Fawcett Society came up with specific proposals around this a couple of years ago, which suggested the cash value being paid by the Government on behalf of carers into their auto-enrolment pension.

**Chair:** Their contributions, yes.

***Zoe Alexander:*** So it is a proper contribution, yes.

**Heidi Allen:** It is only a question of where you put it, if they have not started anything yet.

Q17 **Chair:** Gregg, you have been immersed on this angle in the House of Commons, so let me bring you in.

***Gregg McClymont:*** Thank you, Chair, although I would not claim to be an expert on the welfare system, like other people in the room but I do want to try to put this in context. I thought Nigel's point was an interesting one, about what the objective of the single state pension was. The Pensions Commission's perspective—and of course it recommended moving towards a single state pension, just a lot more slowly than the coalition Government ended up doing—was that the single-state pension should be a basis, but one should be aiming for a replacement rate of around two-thirds of salary at retirement.

What happened in recent years with Governments of different political complexions with regard to pension freedoms in particular, is that there has emerged this notion that the point of the single state pension is to give you something above poverty full stop, and then it is up to you what else you want to do. That is a legitimate point of view, of course, but that was not the perspective that emerged out of the Pensions Commission, if we go back to that foundational document about putting in place an auto-enrolment approach. I guess there are competing perspectives on that, but the initial perspective was that the ambition should be two-thirds replacement rate, allowing for different cohorts in society, but broadly we should be ambitious.

Q18 **Heidi Allen:** Just to wrap up then, we all agree that lowering the threshold earnings and age is a good idea. Is there anything that the DWP have missed, do you think, that would boost and continue people's enthusiasm for the scheme?

***Gregg McClymont:*** The £10,000 trigger. If we look at it, there are 3.5 million workers who are not eligible for auto-enrolment because of the trigger. In essence, in some senses, it is a caring penalty on women because women are more likely to have more than one job, and more likely to have a single job that pays less than the earnings trigger of £10,000. If we take that view that auto-enrolment is a mass system and we take the view also that persistency of saving is very important, people earning under £10,000 on multiple jobs, they will not always necessarily be variable earners, but that persistency of saving over time is really important.

I would emphasise that from The People's Pension point of view, looking again at the trigger and potentially lowering it to the National Insurance threshold, would bring in 750,000 people and 500,000 of those would be women.

Q19 **Heidi Allen:** It needs to be instinctive saving, doesn't it? It does not matter how or where you are earning, it is just a fact of life, just what you do.

***Gregg McClymont:*** If that happens, if Government were to go down that route, it has to be staged and signposted, because that is what has worked well in auto-enrolment. There has been clarity all the way through about the stages.

Q20 **Chair:** Gregg, can I confess my ignorance? MPs are not in these schemes, which is a disadvantage for the schemes, isn't it, that we are not? But if I was in your scheme, would I have to make my own arrangements to pay or could I get, through my National Insurance contribution, the Government to take it automatically and pay it for me? I would have a habit, but the Government would develop the habit for me.

***Gregg McClymont:*** Sorry, Mr Chair, I am not quite following.

**Chair:** At the moment, if I was in the construction industry and part of your scheme, do I have to enter into an arrangement with you or have I set up, so to speak, with the Government through National Insurance a standing order to pay you?

***Gregg McClymont:*** It is all done through the employer. A big onus is placed on the employer.

Q21 **Chair:** The employer has to do it?

***Gregg McClymont:*** Yes, it is all through the—

Q22 **Chair:** So when you change employer, you have to get your new employer—

***Gregg McClymont:*** Yes. It is all done by the employer. Of course I think we are going to talk about small pots potentially. What happens, Frank, why the small-pots problem is such a big one going forward is if you work in the lower end of the labour market, where lots of our members work, and change jobs often—often even in other parts of the labour market, but at the lower end—you change job, you immediately have to have a pot with your new employer's pension provider, so simply put, NOW:Pensions, NEST pensions and The People's Pension will have quite a lot of members in common who have a pot with each of us as they have moved through their working life.

The challenge of how one consolidates those pots is a real challenge, but the employer is the critical factor. The employer is the buyer of the pension, which of course creates all kinds of problems when they come to thinking about value for money and engagement. The individual beneficiary is not the buyer of the pension. It is not a principal-agent market in the way that markets that work better from a profit-making point of view are.

Q23 **Chair:** But you could have a system, couldn't you, where your entry was through your employer, but you then had a standing order arrangement with the Revenue that when you change your employer, you just continue unless you have cancelled your standing order?

**Heidi Allen:** Into the same pension pot?

**Chair:** Yes, the same pension pot.

**Heidi Allen:** Yes, except that I suppose you get into commissions, don't you, and which employer was using Norwich Union and the next one, but the dashboard therefore has to pull it together.

Q24 **Nigel Mills:** We are in danger of being dragged into a debate, rather than asking you questions, but Gregg, you talked about the savings habit, except if I was being a little mischievous I would say the reason auto-enrolment works is that people do not really know they are doing it half the time, so they are not in a habit at all, it just happens to them. If equally I was being mischievous, I would say having a load of pension funds here saying more pension saving is good is perhaps not the most impartial advice we are going to get.

Are there any groups of people who you think are so struggling to make ends meet on a day-to-day basis that taking some of their money off them and making them save for a retirement that is 40 years away, when they will get a single-tier pension that might be more than they are currently earning, is not a very clever thing to do for their own personal finances?

***Zoe Alexander:*** Absolutely, and it is a difficult structural policy question, that is right, because if you want to use inertia and you want to have a system that by and large brings in the working population, at the edges of that you are going to cap some people for whom the agency of having that money in working life may have been better than saving into the pension, but it is very difficult to draw those lines. That is why the debate around the lower earnings limit and around the earnings trigger of £10,000 is finely balanced and difficult.

As I referenced earlier in my introduction, one of the things that NEST is doing is trialling this rainy-day savings account idea, where you automatically save into your pension plus a rainy-day account, which gives you some liquidity, so at the same time as building up a pension you are building up a small liquid savings account that in the event of financial crisis, you can dip into.

Q25 **Nigel Mills:** What is the view of the Treasury on tax relief being used for that?

***Zoe Alexander:*** Tax relief is not being used for that. At the moment, it is an early-stage trial; we are tacking a savings account on to automatic enrolment, so the savings element is separate from that. We need to see how those trials go. There would need to be a policy debate about whether you systematically make this part of automatic enrolment but I think the idea of trying to build an element of financial resilience into automaticity of saving is an interesting one and helps mitigate it. I do not think it completely gets you over it, because there will be some people who are saving and for whom it would be better for them to have the agency of that cash today.

Q26 **Nigel Mills:** Are any of the others on the panel thinking about resilience saving?

***Adrian Boulding:*** Yes. I think it is worth recognising the difference between the UK system, which is a voluntary system based on a principle that we presume it is in people's interests to save, and a number of other international systems where there is compulsory saving. We automatically enrol, with the employers' help, all the eligible savers that meet the criteria the Government have set. People can opt out at that point or they can leave at any subsequent pay period that they choose. They can always unplug themselves from the system and stop. That very difficult decision that Zoe referred to as to whether for an individual it is right at their time of life to be saving or not is left with the individual to make, but the system works on a presumption that they ought to be saving, so the decision is made for them to save and then they can back off and unplug if they want to.

Q27 **Nigel Mills:** I was thinking that before we got too excited about getting into a savings habit, the reason why inertia works is that people do not necessarily understand they can opt out or just forget that they ever could and then they stay in by default. That is kind of what we were aiming for, isn't it?

***Adrian Boulding:*** I would cite what happened last April on that, because when there was a contribution increase, we went through a large communication programme. We wrote to all our members, we gave the employer information to put in the payroll, we gave the employer posters and videos to put up in the worksite, so the employees were well-informed that there was a contribution increase coming, and very few of them opted out. The numbers leaving increased by just 0.2% a month as we went through April but because it is inertia, it was taken from their pay packet and they found that they could afford it, they did not withdraw.

If it had been the other way around, if we had written out to people saying, "Would you like voluntarily to sign up for a contribution increase?" then very few would have signed up, because the nature of inertia would then have worked against the individual.

***Colin Clarke:*** We did a similar exercise to NOW:Pensions. We had a suite of communications that employers could use with their members. The Pensions Regulator's communication to employers was very much focused on employer duties and compliance and making sure that you pay what you are supposed to be paying, whereas the communications that we produced for employers to use with members focused on the benefits of the saving, the fact that their employer was going to be increasing their contributions as well as the members having to increase their own contributions, and also reminding them of the Government incentive in the form of tax relief as well. Our experience over that period of time—sort of March, April, May—was very similar to Adrian's. There was a very small difference in opt-out rates, even below our average opt-out rate of 6.2%—I think the opt-out rate around that period of time was about 4%—so we know that people are still willing to save and willing for their contributions to go up.

***Gregg McClymont:*** Taking your initial question directly, Nigel, of course you are right, there are trade-offs in policy if we reflect on just the challenge that auto-enrolment is seeking to solve, which is based on the decline of employer contributions into pension saving, then getting the system as universal as possible, to make it as simple as possible. "As simple as possible" of course is a qualified statement, which I think is probably very important. Of course when one takes that approach, inevitably there are issues around the edges or coming more into the centre that emerge, but I think part of the success was going for a broadly universal approach.

Of course you are right to say that pension providers think pensions are really important, and 8% is not enough for significant groups, but of course that will not be the case for everyone. A big question around contributions is where the increased contributions balance comes from in terms of employers and individuals. We are going to be sitting at 5% from individuals and 3% from employers. If contributions are to rise, where does that balance sit?

**Nigel Mills:** That is an interesting point.

Q28 **Chair:** That could be the tax relief for higher-rate taxpayers, couldn't it?

***Gregg McClymont:*** The People's Pension view is that there should be a flat rate of tax relief and redefined as a saver's bonus to try to increase understanding and awareness of that boost that the Government is giving to your saving.

Q29 **Chris Stephens:** Why isn't there an opportunity, Gregg, for employers and people who approach them to say, "I want to pull out" to have a discussion with them? The reason I am thinking that is when I started at Strathclyde Regional Council, you were automatically in and you were only allowed out if you were able to demonstrate to the employer that you had other provision.

***Gregg McClymont:*** My mum and dad were both in the Strathclyde scheme, so I know it very well. One point I would make, Chris, and I guess my colleagues here would agree, is that auto-enrolment has changed pensions fundamentally because it has brought in small employers. Pensions used to be for better-off people and big employers. What has happened with the emergence in particular of your three biggest auto-enrolment providers, and on a not-for-profit basis, is working with very small employers who have never engaged with pensions before. When you have micro-employers having to deliver a pension, it changes that conversation. When I think back to my mum and dad's pension in Strathclyde—and my mother is still a Strathclyde pensioner—it was a very different arrangement. Most importantly, it is a defined benefit arrangement, of course, where there is certainty around what you are getting. We have to do more, and getting the communications right is important, but we have 85,000 employers as clients. NEST will have a lot more than that.

***Zoe Alexander:*** We have 600,000, 97% SMEs.

***Gregg McClymont:*** It is a really different environment.

Q30 **Chris Stephens:** Do you check that there is an encouragement, if an employee was to say to the employer, "I want to pull out of here", to have that discussion of, "First, here are the benefits to you, but do you have other provision, because if you do not, these are the potential consequences in the future"?

***Gregg McClymont:*** If we cannot get employers in the long run to engage—and I see pensions as part of that, an important employee benefit—then it just makes the heavy lifting all the heavier.

Q31 **Nigel Mills:** The reason for pension saving is that I have a good asset to live off in retirement. I looked at the various returns of your funds. I know it is all very early days. For NEST, I think the three-year annualised return was 11%, so yes, that is pretty good; The People's Pension, 9.9%; Legal & General 10.8%. These seem pretty good annualised returns. Mr Boulding, NOW:Pensions, 3.1%. What has gone wrong?

***Adrian Boulding:*** The NOW:Pensions return measured over the short term is lower than a lot of the others because our trustees took a decision to hedge currency. They took a view that they did not want to expose the members to currency fluctuations. Over the particular period that you are looking at, we have been through the Brexit vote. The pound has gone down considerably against the dollar and other major international currencies, so over that short term, yes, our members would have been better off if the trustees had decided to expose them to currency fluctuations, which has happened in a number of other funds. But I think over the long term those things will even out.

Q32 **Nigel Mills:** You are saying I should move my money into NOW:Pensions quickly in case the pound strengthens again or have you bottomed out that risk or something?

***Adrian Boulding:*** Interestingly, it is your employer who decides where to place investments, and the employer will choose a scheme looking at a number of factors, one of which is investment; another factor will be service to the member, and another will be service to the employer.

Q33 **Nigel Mills:** Can I ask the other three panel members about these returns, which are somewhere around a 10% annualised return. Are these sustainable long-term returns or have you had a win from currency exposure, so that we should not be thinking you can achieve 10% a year forever and this just looks a bit over the top?

***Gregg McClymont:*** The People's Pension takes the view that going forward, central to our investment approach will be reducing risk. Equity markets have performed very well, at least until recently. These figures might look a bit different if we had updated them since the more recent market falls, but certainly our view is that reducing risk over time is a good thing. A 9.9% return, history suggests, is not going to be easy to achieve, but we would put reducing risk and reducing that volatility very high up our agenda, Nigel. That means diversification. Diversification takes you into a cost argument. One thing—speaking for The People's Pension—that our investment approach has done well is keep costs very low.

It is a very straightforward, simple, index-based investment approach—no paying of active managers to outperform the market—but over the long term, if we want to diversify, how do we get exposure to unlisted assets, infrastructure and things like that to diversify the investment portfolio? To keep costs low will be the challenge, because these assets are more expensive to invest in. Of course, the Treasury and the Government are interested in having funds like the funds represented here today to look at patient capital, investing in the late stage of entry capital.

That is a very interesting project that the Treasury is undertaking, and we are involved in it at The People's Pension, but one of our questions is how can it be done in a way where you can access that asset class at a price that does not mean you are paying too much for investment?

Q34 **Chair:** Gregg, do you build your own basket of indices or do you ask somebody else to do that for you?

***Gregg McClymont:*** Historically, since 2012, someone else has done it for us. Going forward, we have begun the process of taking that in-house—very recently we have created our first index with an ESG tilt, where companies are being excluded on the basis of various criteria—but it is an ongoing process, Frank. In the initial years of auto-enrolment we focused on processes and systems and administration and the investment has gone okay, as those numbers suggest, but the long term reduction of risk via these kinds of approaches is central to what we are intending to do.

**Chair:** You might write to us about that, Gregg. It is very interesting.

Q35 **Ruth George:** With younger people in particular being much more transient in their work and where they live, there is an increasing risk of unaccessed pension pots. To what extent will the pensions dashboard alleviate that problem?

***Adrian Boulding:*** I will answer that, because we were a party to the prototype to the pensions dashboard that was run on an industry-wide basis in 2017. It is possible for an individual to turn up at the dashboard and make an enquiry of the databases of all the pension schemes in the land. On the prototype, when that individual turned up and made an enquiry of our pension, then it would return the answer to him or her. I think the pensions dashboard is a considerably advanced tool that will help to alleviate this problem of unclaimed pension pots, because when people turn up with their identity, name, National Insurance number, date of birth, then an automatic search can be made. Yes, they may well have forgotten about a period of employment or not remembered what the name of that pension scheme was some years ago; the dashboard will have the capability of finding that on their behalf and drawing it to their attention.

Q36 **Ruth George:** We saw the Government put on hold the proposals for automatic pot matching to try to consolidate some of those smaller pots. We have no new proposals in place at the moment. Does any more need to be done on that?

***Colin Clarke:*** I think the dashboard will go quite a long way to help people reconnect with those pots and to be able to virtually consolidate them, if you like. I know when the pot-follows-member approach was being considered by the DWP, one other option was an aggregator scheme or a virtual aggregator scheme. The dashboard is essentially a virtual aggregator, which may solve the problem for people to engage, but it would not necessarily encourage them to move things around. I think we need to take it in stages. One of the key things that the dashboard needs to deliver is full coverage across all the pension schemes, be it DB, DC, public sector, private sector, so that everybody is guaranteed that they will be able to see all of their pots at some stage in one place.

If there are schemes that were let off having to provide data and people could not find things, I think that would damage the potential that the dashboard could deliver. We are very supportive of what the DWP is doing and the momentum that it is gaining at the moment, but I think that is a first step. Longer term, once you have something there and people have reconnected with their pots, I think there is more work that could be done on possible consolidation later on, but I think we need to have the dashboard there, reconnect people with their pots first and then start working on phase 2, if you like.

***Gregg McClymont:*** It is very interesting about aggregators, because that was discussed in the 2010 Parliament quite a lot. There were differing views. There was a pot-follows-member view, which the Government favoured, and the Opposition at the time favoured an aggregator approach. If we think about the dashboard, all the conversation about the dashboard is about increasing awareness among individuals. Awareness and engagement might be different things, of course, but increasing in the first instance awareness.

I think we have to be clear about the dashboard, that that will be a very good thing, even increasing awareness, but there are big questions about the governance of the dashboard and making sure that any dashboard operator, in our view, should have a legal duty to have to put the interests of users first, a bit similar to the fiduciary duty that we all operate under. We think that legal duty should be brought in by the Government.

On the automaticity, that takes us from a view of the dashboard as something just for individuals to use for awareness to how it can drive providers, via legislation, to create automatic consolidation. The Australian system has that and it is done via the Taxation Office. If a pot is under a certain amount and it is defined as a stranded or lost pot, ie when you send out a communication, you cannot find the individual, it immediately has to go to the Australian Taxation Office and it is their job to reunite that pot via the unique tax reference number with the pot holder. The dashboard can do something similar, but that will need legislation at some stage to place duties on providers to undertake that consolidation or via the aggregator approach.

It is critical.  Think of a customer journey at the moment. We are hurtling towards, a few years down the line, auto-enrolment. Someone might have eight pots, eight different providers over time. They are due to get eight letters a year from different providers with different amounts. They might only get four or five, because they have not updated their home address with all the different providers, so they do not have all the information and have a multitude of information therein. That is just not going to enable people to have that awareness, never mind the engagement about taking action. The awareness of what one has is a critical first step—"Dashboard, what do I have and where is it?"—and then down the line, as others have suggested, how do we get that automatic process in place to consolidate auto-enrolment pots?

***Adrian Boulding:*** While the Government terminated the programme to automatically transfer stranded pots, they did give our trustees a power to make bulk transfers without member consent. Something that our trustees are particularly interested in is trying to analyse where we have particular groups of members that have ceased contributing to NOW:Pensions but are contributing to another pension scheme, whether we can have a one-on-one dialogue with that other pension scheme and transfer those members, having forewarned them that it was going to happen if they did not opt out, but transfer them in bulk to a scheme where they are now contributing. We have the powers in the legislation to do that already. It is something our trustees are interested in. It is something I think we could see a lot more of once we have gone through the other side of master trust authorisation and the trustees would then draw great comfort from knowing they were transferring them to an authorised pension scheme.

Q37 **Chair:** Do you want members back in return, Adrian?

***Adrian Boulding:*** We would be very happy if members came back the other way. It would not be appropriate to make that a condition of the deal, but we would be very happy to work with a scheme to say, "You probably have the reverse problem, you probably have people who are currently contributing to NOW:Pensions because they have changed jobs, but they are no longer contributing to yours". We would happily take a sort of swap, a prisoner exchange, if you like.

Q38 **Chair:** Aren't you doing this because it is in the interests of the consumer or is it because it will minimise your costs?

***Adrian Boulding:*** No. Can I be clear on that one? We are doing this because we are very concerned that people who leave small pots behind are a drain on the system, therefore we would like to do that.

Q39 **Chair:** Why do you think they are a drain on the system, Adrian?

***Adrian Boulding:*** What I mean is they are a drag on the system because they have a number of small pots around the place, each of which is incurring costs.

Q40 **Heidi Allen:** Costs for who?

***Adrian Boulding:*** They are incurring costs with NOW:Pensions and they are incurring costs for the member. The people who set up NOW: Pensions originally in 2011 decided they did not want a cost subsidy between the members with the smallest pots and the members with the largest pots. We charge members separately for fund management and for servicing, so if they have left a small pot behind, then they are being charged for servicing and we encourage them to transfer. For those who have not taken that hint, we think that a system of bulk transfer would enable us to move them—in their interests, not our interests—to the place where they are now making their contributions.

***Zoe Alexander:*** This is something we have been discussing as a group of master trusts for quite a long time, through the PLSA and other routes. We have always come at it in NEST very much from a consumer perspective: could this be one of the solutions to the small-pot problem? When you look at the potentially consolidating market as a result of master trust authorisation, potentially you end up in a few years' time with a smaller number of large schemes operating together. At NEST you have a pot for life, so if you flow in and out of NEST at various stages, you are just accumulating one pot, which makes it simpler in itself.

I think it would be good for other schemes to think about doing that as well, but in a world where there are let's say five or six very big-scale master trusts operating out there, you might have pots with four of them, but hopefully they would all be fairly substantial. If we can find ways of solving that micro-pot issue and have the dashboard on top, we have come some way along the road to making things better for the consumer.

Q41 **Ruth George:** What incentive is there for trusts or pension schemes to try to reunite lost pension schemes with their owners or with a new pension that they are contributing to? Is it going to happen across the board or is it something that Government will need to take a little more action on?

***Gregg McClymont:*** Just from The People's Pension point of view, wrapping it in Frank's question about in whose interest—the same question—is this done, I think the structure of the organisation is very important. If you take The People's Pension, it is a not-for-profit organisation. Clearly it is more efficient to have small pots consolidated from the view of running the pension scheme. It should reduce costs. In our not-for-profit structure, that means those reduced costs go back to the members in one way or another. We currently charge a 50 basis points flat fee for everyone, which was a big advance in the market, 0.5% for everything. We would like, over time, to reduce that further for our members. If one can make the system more efficient by reducing the number of small pots that we administer, that should mean over time—given our structure, because profit cannot be distributed to shareholders—lower charges and/or better services for our membership.

Q42 **Chair:** You also hope to reduce costs by taking the investments in-house, don't you, Gregg?

***Gregg McClymont:*** Yes. That investment piece is a very interesting issue. What I would say, Frank, is it is possible you could take the investments in-house and that reduces cost, but at the same time, as you try to diversity your portfolio, you are having to access more expensive asset classes. You might be doing two things at the same time that are in tension where, for example, your overall investment budget might stay the same because you are buying more expensive—

Q43 **Ruth George:** What happens to these unaccessed pension pots at the end of the day? Where do they go? They are not in little cells in Gringotts Bank underground somewhere. What happens to them after what period?

***Colin Clarke:*** With us, they just stay in the scheme until we are able to find somebody to reunite them with. If we have lost touch with people, we do regular exercises where we trace their whereabouts sort of every six months, every 12 months and eventually somebody will reconnect. There will come a time when you think somebody is potentially too old, so they may have deceased, in which case we are doing some work on looking into what we call dormant assets and what we could do with those dormant assets, but at the moment those are retained within the scheme. I think our oldest customer is about 84, 85 or something like that, so they are not old enough yet for us to start thinking that this a real issue for us, but it is certainly something that we are mindful of.

Q44 **Chair:** Colin, let's imagine I am coming up to retirement age. I had always imagined that if I had all these pension pots, it would be like being in our local store, where you have those very old-fashioned things you put money in and screwed it on and it all went to the cashier. Is that what happens as I reach retirement, these different pension pots all get in touch with me with my assets to say, "What do you want"?

***Colin Clarke:*** Yes, that is exactly right. All pension schemes have legal duties to start sending what we call wake-up packs to people. The FCA is looking at the timing of these at the moment because they come out very close to when your normal retirement day would be. It is about four months before you reach that point, but there is a lot of research that shows that that is probably not early enough. The Financial Conduct Authority is working on some proposals at the moment to start issuing those kinds of communications from age 50 onwards to start people thinking about the transition from the savings phase to the spending phase. Yes, there will be a given point where you will be bombarded with communications from all of your pension schemes.

**Chair:** The more pots, the more of these packs are going to start bombarding you, yes.

Q45 **Heidi Allen:** We have talked a lot about people having bits and pieces all over the place and auto-enrolment of course is not going to stop that. If anything, it might mean that they have more. How successful do you think auto-enrolment has been? They are definitely more aware of pensions, I think, probably than they were, but that ownership, "It is my thing that I am leaving behind when I move company and I need to think about whether that is the best deal or whether I should be shopping around" has the awareness reached that level with people or is it still a bit of a thing that is done to them, if that makes sense?

***Zoe Alexander:*** Shall I start on that? There are some encouraging indications from work we do through a consumer tracker survey, which is suggesting that there is a kind of normalisation in feeling that a pension is a normal thing to be doing among the DC membership. Figures around questions like, "A pension is the right place to save and it is a normal thing for people like me to save in a pension" have kind of doubled over the last three or four years. That is encouraging.

I think we have to be honest with ourselves, that that does not mean that people are engaging and starting to make active choices. One of the hazards we need to be alive to is that in making decisions to, for instance, consolidate one's pot, you might look at the dashboard and say, "Gosh, I will just stick it all in L&G or something because it is simpler"—and this is not a comment on L&G, it is a bad example—is that people are not highly pricing-sensitive. They do not understand pensions charges and what value for money means. It goes back a little bit to Gregg's points about the need to diversify and spend a bit more in investment in order to get the right return, so you might have a slightly higher charge, but you are getting better results. It is a very complex area, to try to express value for money.

To answer your question more directly, in our experience, our members are not engaging at that level of sophistication yet. Tech and the dashboard might make them engage more. I think when they do that, we need to make sure there are strong consumer protections to make sure they are not making the wrong choices. That is one of the reasons why I agree with Gregg and others, that the dashboard needs to be a single public dashboard with very strong consumer protection and principles built around it.

Q46 **Heidi Allen:** You are right, because I would be the sort of person, just for tidiness, if I could see all those things, "Oh, just shove them all in one. It is just easier".

***Zoe Alexander:*** There are useful apps that can persuade you to do that and you do not see what is underlying that, yes.

Q47 **Chair:** Do you, as companies, analyse your costs and returns and compare them against other companies and see how you might improve your performance?

***Zoe Alexander:*** Yes, we do. You have the costs and charges that are placed directly on members through the contribution charge and the AMC, in NEST's case, and then there are investment costs, which is another area. As Gregg says, we are probably a little bit further down that path that you are grappling with, because we have always taken a more active approach to investment, sometimes spent more than other schemes in order to do that.

Q48 **Chair:** One exercise is "Do we charge the least?", but as Gregg and other members were pointing out, it is the returns that are also important. Do you internally consider regularly what your costs and the rate of return is, as opposed to all other companies, and whether you should improve your performance?

***Zoe Alexander:*** I would not say we have a formal process to do that at NEST, but I would say that at management level we all have an awareness of what other schemes cost, and what charges and returns are, and are comfortable where we stand within that.

***Adrian Boulding:*** It is a matter that the trustees take very seriously in terms of value for money, which is looking at what it is that the members get and what it is that the members are being charged in order to get that.

Q49 **Chair:** Do you compare yourself with other companies?

***Adrian Boulding:*** Yes, we employ external firms to do the benchmarking for us. Competition law would prevent us cosying up to another master trust and saying, "What are your internal costs? How much are you charging your members?" but we can use an external firm to benchmark ourselves against others in the marketplace.

Q50 **Chair:** You do not have to cosy up to them. You know what they charge because it is published.

***Adrian Boulding:*** We know their published charge information. We do not know what internal costs they are incurring.

**Chair:** It is all coming out of the pot, though.

***Gregg McClymont:*** This is a financially interesting area. As things stand, every employer who is a buyer of the pension is charged the same; small or big, the same. Some providers do bespoke pricing, and that was the traditional way that pensioning was done where the price depends on the size of the scheme, how soon it becomes profitable, so it can be quite difficult to compare. Some schemes are utterly transparent, just because they have a single charging structure because everyone pays the same. Others we do not know, so it can be hard to do a comparison. Where we have been looking, in an informal way, rather than a formal process at this stage, is at the Australian market, which is a very similar system, the most similar system to the UK and has now been doing DC for 25 years. It is compulsory rather than semi-compulsory like ours, a very similar system, and looking at the returns there versus the costs it is quite striking. There the costs are higher, often, but the returns have been very good over the long term, particularly in the not-for-profit space. We are trying to understand why that is and what are the similarities and differences.

**Chair:** On this point, could I ask you to give us that information, and if you do not, can you tell us why you will not? Is that all right? Thanks.

Q51 **Nigel Mills:** The important reason why I asked you about your returns is when you are marketing to employers what are you offering them? Are you offering them the pension that gives the best return for their employees, or are you offering stuff that is convenient for the employer? I do not want to pick on you, Mr McClymont, but I had a quick check on your website and you have nine reasons to recommend The People's Pension. Do you happen to know what those nine reasons are?

***Gregg McClymont:*** I would fail that test comprehensively.

Q52 **Nigel Mills:** "An award-winning automatic enrolment solution—The People's Pension has a Defaqto 5 Star Rating"—I am sure that is very important—a great contact centre, clear communications—that is very important—seamless transfer of employee data, expertise in dealing with complex payrolls, a simple transfer process, a management charge of just 0.5%, an independent trustee board with strong governance and the first master trust to obtain independent assurance of scheme quality. Not one of those nine reasons for why an employer should choose your pension is, "We invest the money quite well and will give your staff a good pension". I mean—

***Gregg McClymont:*** Our returns suggest we do that.

Q53 **Nigel Mills:** That is not what you are asking the employer. What you are saying to the employer is, "Come with us because we are cheap and it will be easy for you", not because, "It might be a bit harder, maybe not quite as cheap but your employees will get a far better pension than this". That is not even one of the nine. It ranks even below the call centre.

***Gregg McClymont:*** I take your point and it is a very good point. I think those nine reasons do matter a lot. What I would say is if we think about auto-enrolment, it only began in 2012 and the fundamental thing in auto-enrolment in the early stage is to get those contributions processed efficiently. We now have more than one million employers processing contributions via providers for nearly 10 million people. Getting that right was the critical first step.

Over time, as the Australian system suggests after 25 years, in Australia all the talk now, Nigel, is about net returns. I would anticipate in the UK, we are in year seven, the fact that we are having this discussion about investment, which I wonder if we would have had when I was around these buildings, we were not talking at all about investment and auto-enrolment, as the pots grow, as the assets grow inevitably there will be more focus on investment, but you are right to say that the focus so far has been on the process, systems and administration, generally speaking.

Q54 **Chair:** Is that not part of what Gregg said earlier, that this auto-enrolment—or maybe it was not Gregg—changed the scene, that employers who never thought that they were going to be agents for pensions are now agents for pensions? If they thought that, they would be thinking, "Oh, my God, I want something simple" rather than, "What is the return for my employees?" I am not trying to excuse anybody, but if you are trying to make this very big jump, which auto-enrolment did, and I was an employer and frightened about, "Gosh, I don't want to be breaking the law" I think I would be looking for something simple. That was NEST's great attraction, was it not?

***Zoe Alexander:*** It is a sign of a maturing policy that we are having this debate, because a couple of years ago, perhaps three or four years ago, before we went through the big staging of employers, the big worry was how could we get all these thousands of employers on board? Is it going to happen? Is NEST going to fall over? Are others going to fall over? We were, at the peak of staging, enrolling thousands of employers a day because we had this kind of straight-through processing system, and we also have this thing called NEST Connect, which means if you are a small employer you can use an intermediary or IFA to connect with NEST rather than having to do it yourself. It has been really successful.

Next question, how do we enable consumers once they start to build a pot up, to start to engage where an employer has chosen to put their assets and to make good decisions about where they should be longer term or at least for retirement?

Q55 **Chair:** We have been through it before, haven't we?

***Gregg McClymont:*** It is that point about the buyer. The buyer is the employer, so if I think about trustees they will be thinking deeply about the investment approach of the scheme, and that is probably reflected in our performance so far, but for that pension the buyer is the employer and the beneficiary is the individual. That inevitably creates some complexity.

Q56 **Chair:** With the advisers for your scheme, are you building up your own leadership team, or do you rely on the big four accountancy firms to advise you?

***Gregg McClymont:*** In terms of?

Q57 **Chair:** How you should be doing on investment, how you should choose, and so on?

***Gregg McClymont:*** We have an investment consultant who is not from one of the big four, I believe, and we have an investment committee, which is a committee of the trustee board and over time, we are building up our internal investment team under the leadership of a CIO.

Q58 **Chair:** The big four have not nosed their way in yet?

***Gregg McClymont:*** I could not say categorically but our investment consultant certainly is not from that—

Q59 **Chair:** Do any of you three use the big four?

***Adrian Boulding:*** No, we use a specialised investment consultant, Redington. They specialise in investments in the pensions marketplace and they provide investment advice to our trustees.

***Colin Clarke:*** We do not use any of the big four either. We have a small advisory firm.

***Zoe Alexander:*** We are increasingly bringing things in-house.

Q60 **Chair:** That is not the question. Do you use any of the big four now?

***Zoe Alexander:*** Not systematically, to my knowledge, no.

Q61 **Heidi Allen:** This is Frank's pet topic, I do not know if you have noticed. To wrap up, then, is it a fair description that people's knowledge and sense of ownership is maturing and probably auto-enrolment has helped with that a little bit by pensions becoming commonplace language, but we are not yet at a stage where people are owning it and thinking and actively choosing something different? Do you think that will naturally come with time or do you think there is anything more proactive that Government need to do to help people make sure they are making the very best investment decisions?

***Colin Clarke:*** I think there is still a long way to go with getting people to engage and making their own investment decisions. Overwhelmingly the vast majority of our members are invested in the default fund, but we do have some very engaged employers as well who are also very active in coming up with investment solutions for their employees. We have the concept of what we call our scheme default, which is the one that you very kindly articulated those performance numbers on for us, but we also allow employers, if they are taking their own investment advice, to have bespoke investment solutions for their employees, which is designed very much around the close knowledge that the employer has with their employees and their beliefs and behaviours.

We are able to tailor different default solutions for different workforces, but, yes, it is still a default solution. There is a small minority of people who choose their own investments, so I think there is some work that still needs to be done to engage people in that regard.

***Adrian Boulding:*** I think it is worth remembering that the automatic enrolment programme is young. We only started in 2012. It was only last year that the last of the employers came round and were enrolled. Up until last April it was only contributions of 1% from employer and 1% from employee. Our average pot size, because we are a pure automatic enrolment-only scheme, is just £500 per member. They do not yet have a huge sum of money on which they might feel they want to start taking some different investment decisions. Over time, as those funds build up, then we will see greater levels of member engagement.

***Gregg McClymont:*** Our average pot is just £1,200, so bigger but not huge. We said about auto-enrolment at the beginning, or at least I said, that it goes against the grain of human nature around long-term saving and it harnesses inertia. We want people to take ownership, but what do we mean by that? Do we think it is feasible that on a mass basis people become their own chief investment officer? I certainly do not want to have to make decisions about my pension in terms of investing it myself. I think we need to be realistic in terms of the policy about this. I mention Australia again, because it is the most similar, 25 years down the line the pots there are significant, because it has been a compulsory system with a higher contribution rate for 25 years. There is more awareness than here, but still in the scheme of things very low awareness. There is some evidence that if people get a pot equivalent to one year's salary they take more interest, but more interest relative to what? Relative to probably low awareness or very little awareness, and of course we have to confront this because of pension freedoms in particular. How do we balance the inertia and the savings phase with making decisions and the retirement phase? Our answer we think is at least in the short to medium-term to try to make the retirement fees, the choices, as simple as possible for our members, rather than trying to climb Everest by turning millions of individual members who are not engaged with their savings into highly engaged people. That is our feel for it.

***Zoe Alexander:*** I echo all of that and was going to say something very similar. I think we just need to guard against this idea that we have them in there, saving, and now we are going to wake them up and they are all going to start making decisions. I think we have to be really honest with ourselves about the weight of evidence that shows that people cannot handle these.

Q62 **Chair:** The only decision they would like to make is to take it out, isn't it? You are on Universal Credit, no money comes, you have £500 in your pension pot. If you were free you would take it, would you not?

***Zoe Alexander:*** That is part of the interesting cycle. So when we start to allow them to build up some liquid savings, what do they do with that and how frequently do they tap in? I worked before this on Pension Wise and sat through countless guidance appointments in which people come out more confused than they go in, and that is not a comment on the guidance, that is a comment on the system. It is really complicated.

Q63 **Chair:** It is set against this political correctness about in a sense you have ownership. One day you will have ownership, but you do not have it now, do you?

Q64 **Derek Thomas:** So if we take a bit of an average—someone on an average income who started at the beginning of the scheme in 2012—when they retire, I guess one of the questions is when that might be, because the dates seem to be a bit fluid, will they have a pension that will give them a comfortable life under auto-enrolment?

***Adrian Boulding:*** It helps, is the answer. If you go back to the work that the Pensions Commission did that set the original 8% level for this, they reckon that your typical worker will end up with a pension not of two thirds, which is what the great final salary era used to do, but a pension of about 50%, made up of one third of their salary coming through the state pension and another one sixth coming from the automatic enrolment at the minimum levels. To get them up to the two thirds they will need to pay more in, and that might be voluntary contributions or it might be the Government deciding that the 8% of qualifying earnings is not enough and needs to be increased either by raising the 8% or by expanding the qualifying earnings, so that 8% means 8%.

Q65 **Derek Thomas:** That is very helpful. We have talked a lot this morning already about how well people are engaged, who is buying the pension, who owns it, do they feel like they own it? When you send out your annual letters, I think Gregg said that is what happens, does the letter just advise them—and they might receive, as you are suggesting, in time eight different letters—does it advise them just on what is there, or does it give them any advice about what they might need to do to deliver a comfortable pension?

***Adrian Boulding:*** We will send them a projection that shows what the pension will deliver at their chosen retirement age, assuming they carry on contributing at the same level. They can go on our member site and engage with us and look at the contribution calculators and see that if they put in another £10 a month what would that do? Would that improve things for them or not?

Q66 **Derek Thomas:** That is interesting, and I will go back a little bit, because I come from the construction trade and I completely understand the example that Gregg was using, that you tend to move about a bit so you end up with lots of different pots. Without being unfriendly to my old sector, we were not really engaged in pensions. We used to get the old brown envelopes and just enjoy that every weekend. Is auto-enrolment effectively creating an environment for people who may never really engage fully in it, where they will just wait until they retire and see what is there, and it might not be enough? Is there more to be done to help people? There will be a group of people, I guess, who will always live like that. They will just wait until it is probably too late, which is why I guess we introduced it in the first place.

***Zoe Alexander:*** I think I would say that there is a danger that people anchor to whatever level you set the contributions at, so if the Government say it is 8% a significant number of people will think, "Okay, I am going to be fine. They have said it is 8%. I am saving. It is all going to be fine" and then they get there and realise it is not a huge amount of money, which takes you to the discussion about whether contribution levels should go up and also what constitutes a comfortable retirement. There are various things going on and I think there will continue to be various things going on to try to improve engagement. We do a similar thing to Adrian, but the problem is you have eight letters to compare against, and so the dashboard potentially helps, so you have your aggregate figure and you can put that into a tool and work out how much more that you need to save, but it is a really difficult question about how you get people to make those judgments.

There is also a piece of work going on by the PLSA about retirement income targets, which is a similar system to what they have in Australia, where they have a definition of a very comfortable lifestyle, a medium lifestyle, and a basic one as a way of trying to get people to anchor and realise that they are heading for the basic one, they might want the middle one, and what is the difference? That could be really positive. It is early stages.

There is a lot of thinking going on around this. The issue is that it will only be a subsection of people who will ever engage with this stuff.

***Gregg McClymont:*** A really good question. I think in that context assuming that there is a group of the population like that, then it becomes an asset ownership policy, so it is building up assets for parts of the population where those assets, when they crystallise, to take Frank's point, and become owners of it, they have some sort of buffer, some assets that give them a bit more freedom. That is the way I would think about it.

Q67 **Chair:** Is it not the only duty of Government to ensure that people have an income in retirement, which takes them off means-tested assistance? Is it not your job to get them to save more on top of that, not the Government's job, in effect giving you the powers of taxation, making people save?

***Zoe Alexander:*** It is primarily our job to get people saving at the right level, which might not be higher but is the right level for them, yes.

***Adrian Boulding:*** We are the creators of an automatic enrolment master trust, so our predominant responsibility is to assist employers in discharging the statutory duties that Parliament has set them, which included making sure people pay at the statutory contribution rate. We see that as our predominant job.

We are keen to encourage members to pay more, but we see our predominant responsibility as enabling those employers who have come to us to discharge their statutory duties completely.

Q68 **Chair:** You have all been talking about this two-thirds of previous earnings. That is your job, is it not? Our job in Parliament in setting rates is to ensure people are free from falling back on to means-tested assistance, is it not? You just want us to do all the hard work for you, don't you?

***Colin Clarke:*** We have already done a lot of work. It goes back to one of the points I made earlier about the digital statements, which try to encourage people to make more use of employer-matching contributions, which has been very successful.

We also think that employers have quite a big part to play in this as well, in the additional incentives that they could potentially offer. Obviously the appetites are going to differ, depending on the size of the employer and how much money they have to be able to do that kind of thing.

There was some research that was carried out on behalf of independent governance committees about a year and a half ago, which was trying to understand areas where members placed the most value. Good returns, unsurprisingly, came out very highly but also that their employer was paying in as much as the employee, so 50-50 matching contributions. Whether that is something that the Government needs to make as standard, or whether more employers should be encouraged to do that, there was a very strong message coming from scheme members that that is where they saw the good value.

What we do at Legal & General is where an employer is offering that matching contribution we are engaging with them through these video statements to try to get them to pay more, which has been very successful.

Q69 **Chair:** One of the answers to my question is it pushes up costs if you have that function, rather than Parliament just legislating that people have to do as they are told.

***Colin Clarke:*** There are ways to deliver those messages that are less costly than others. Sending stuff through the post is very costly, but once you have bought the underlying technology for digital services the ongoing delivery of those communications is a lot cheaper than having to send a statement through the post, that a lot of people are probably not opening.

Q70 **Ruth George:** I want to turn now to looking at the impact of auto-enrolment on employers, particularly small and micro-employers. We have seen a large increase in the number and amount of the fines being levied over the last year, and I think in the year to September around 36,000 firms had an average of a £1,172 fine, which I think were largely on smaller businesses. Do you think that is proportionate to what small employers get out of an auto-enrolment scheme? Do you want to start, Zoe, as principally NEST has so many micro-employers?

***Zoe Alexander:*** I would not comment explicitly on the level of the fine. That is a question for Government. I think broadly employer compliance has been very strong. We welcome the regulator intervening where people are not complying, but it has not been a major issue and it has been less of an issue than I think people anticipated. A lot of small employers have found it a big transition to make, to start to engage in pensions and to get the systems running, but by and large, because large schemes like ours have created systems that make it easy for them to process their employees I think things are running well, so no specific comment on the level of those fines, if that was the question.

Q71 **Ruth George:** Do any of you see more issues of fines? Do you see where employers are fined and if those are more among the smaller employers than the larger ones?

***Adrian Boulding:*** I think it has been very much among the smaller employers. The reason fines are up I predict is because it has been smaller employers going through the staging duties and I think the fines almost exclusively relate to employers that did not wake up to the fact that they had a job to do here, they now had a statutory duty to take their employees and automatically enrol them into a pension scheme.

We are obviously through all that staging now and there is a widespread compliance culture among employers of this. What we are seeing today of course is new employers coming to market, new firms that are being set up. We take on about 150 new employers every month, that have started their business up from scratch, created a new business and cottoned on to the message that they need to have a pension scheme. As soon as they start hiring employees and paying tax then they get a notice from the Pensions Regulator, because they are hooked into HMRC for the information, reminding them that they have this duty, they need to go on and do it, they go to the marketplace, they choose a pension scheme and 150 a month of them choose NOW: Pensions.

Q72 **Chair:** Given what Gregg said earlier, Adrian, if I am the employer, it is all new to me, I think I have done my minimum and I am not making payments do you chase me for those payments?

***Adrian Boulding:*** Yes, as soon as you have signed up to NOW: Pensions we know whether you are a weekly, four-weekly or monthly payroll employer and we will expect to see a return from you on every payroll period. So if you are paying weekly—

Q73 **Chair:** How many times would you chase me if I did not make those returns?

***Adrian Boulding:*** We will chase you, if you do not make those returns, I believe it is three. I would have to come back and confirm exactly on that, but if we have chased you a number of times when that number is exceeded we then hook into the Regulator and tell the Regulator that we have endeavoured to chase you but you are not responding.

Q74 **Chair:** So you can report them for investigation? Thank you.

***Adrian Boulding:*** Yes.

***Colin Clarke:*** There is an automatic duty on all pension providers to report unpaid contributions if they remain unpaid after 90 days. We will chase people three times and we do it in different stages, so the first contact would be with the employer after the first 30 days. If we have not heard from them after the next 30 days we then start engaging with the scheme members to make them aware that their employer has not paid. Then ultimately, if we still have not had any response after the end of the 90 days, we will report them to the Regulator.

Q75 **Chair:** When people are making returns for people's income and it looks as though they are not paying the minimum wage does the Inland Revenue write to them to say, "Can you check whether you are paying the minimum wage?"

***Colin Clarke:*** I do not know.

Q76 **Ruth George:** In your experience is it employers not engaging with or not setting up an auto-enrolment scheme that has been the cause of the fines or is it ongoing compliance? Presumably if they have not set one up you will not know about it, because they will not have set one of your schemes up.

***Gregg McClymont:*** It can be different things, Ruth, so it can be, as you suggest, not setting up the scheme. It can also be not providing information when requested by the Regulator. It can be a case of, more seriously, contributions not being collected or invested on time. I think it can be a variety of issues. The latter would be probably a quite significant issue but I think it can be a variety.

If we put ourselves in very small employers' shoes, lots of people work for very small employers, therefore if we want auto-enrolment to be a mass system then the smallest employers have to be in and we would take the view that is the right decision, but it is a challenge for the small employers who have no experience of pensions whatsoever to get this right.

My own perspective would be that it has proceeded quite successfully given those challenges. England is a law-abiding country and employers want to abide by the law and with the help from providers and accountants my sense is it has worked reasonably well.

Q77 **Ruth George:** My own experience of setting up an auto-enrolment scheme for a very micro-business was that the accountancy fees were £35 a month that would have been charged and the pension contributions were not a lot more than £35 a month. They were usually about £50 a month, so it just seemed disproportionate seeing as it was quite a big cost on a small not-for-profit business anyway to pay accountancy fees so you are then trying to juggle, as a small business, just one other thing in the many other things that you have to do. Certainly fines of over £1,000 a year is going to be make or break for some businesses, particularly as to whether they take on staff above the level of auto-enrolment. Do you think that is an issue?

***Adrian Boulding:*** They should not need to incur fines, because they get good information from the regulator and from the pension providers. The regulator operates a system of increasing fines, so the initial fine the regulator makes on a firm that is non-compliant is very low and they say in that fine, "If you do not pay that fine and do not get yourself compliant the next fine is going to be rather bigger" and eventually they realise that it will be a threat to their business to pay the fines rather than comply with the law, and so they comply with the law.

Q78 **Ruth George:** That escalates daily, doesn't it, so it is a pretty quick escalation?

***Adrian Boulding:*** At the end of the process it begins to escalate daily, yes. You do not want to get down to that far end of the process.

***Colin Clarke:*** We were anticipating that there could have been an increased number of employers not paying the increased contributions in April last year, so we had implemented processes to spot it at a very early stage and because we thought that there was going to be more than we would usually see that might be late on occasions we had to really scale up our processes, in case we had hundreds of employers that we all had to engage with and ultimately report to the regulator. We were very surprised that we only had about four that we had to investigate in the end. We do not have as many employers as some of my colleagues here, but it was a very small number of employers that did not pay on time and went through the full 90 days before we had to engage with the regulator. That was quite encouraging.

Q79 **Chair:** As a Committee we sometimes witness firms going into administration, and other companies circling around trying to pick the best bits out, often the owners of the firm itself. We have a series of master trusts being wound up. Do you do a similar thing, nosing around seeing whether you should make a bid to take over the business or not?

***Colin Clarke:*** We are not actively seeking that out, but if any master trust that is looking to exit the market was to approach us we would certainly have conversations with them.

Q80 **Chair:** Who does the directing? Is it the Pensions Regulator? Who decides who is going to get those poor, stranded, orphaned contributors?

***Colin Clarke:*** It is up to the trustees of the failed master trust to go and find somewhere to transfer the members' assets to, and also the employers to maintain their duties. Employers are free to make their own choice as well, but it is the existing master trust's responsibility to allow for that transition and that continuity.

Q81 **Chair:** How many master trusts have you taken over who have gone belly up?

***Colin Clarke:*** Legal & General have not taken over any, but Smart Pension, who we have a small stake in, are working with three or four master trusts at the moment to take those on.

***Adrian Boulding:*** We are not in the market of absorbing other master trusts, Frank.

***Zoe Alexander:*** We are not actively looking either, and we have not taken any on so far.

***Gregg McClymont:*** The People's Pension absorbed one in 2018, one master trust with assets of just under £20 million, Frank, and we are open-minded going forward. Your question is a very good one, because it does not lie with the Regulator and therefore you have to find a way to meet the demands of the trustees and sometimes trustee owners of these master trusts. As a not-for-profit we do not have a blank chequebook, so you have to find a way to make it. Our trustees will only proceed if it is in the interests of our membership as a whole.

Q82 **Steve McCabe:** I want to quickly turn to the self-employed. I really just want to ask can we create an auto-enrolment system that works for the self-employed?

***Adrian Boulding:*** I would say if you look at auto-enrolment and what you would need to copy to make it as successful for the self-employed as it has been for employees you need to copy three things. You need to copy inertia, so it happens automatically. You need to copy the fact that the money is taken from pay before the member has their hands on it, and you need to copy the fact that it does not feel like a tax, because the way it works is that your employer sends it to a private sector pension provider, not to Government. There is no easy way to do that at the moment for the self-employed, but if you look at Matthew Taylor's work on the self-employed he has painted a future vision of a cashless self-employed society, where self-employed people would invoice and receive payment through apps. You would pay your gardener using your mobile telephone. If you had that system then you could apply my three principles of saying through that app you could use inertia to deduct the money before it has reached the individual and send it to a private sector provider so that it does not feel like a tax. I think, for the future, technology will get us there. In terms of the way self-employed people work today you cannot translate those three principles across at the moment.

Q83 **Steve McCabe:** How far away is that future that you are talking about?

***Adrian Boulding:*** I think the technology is almost there. I think the issue is whether the HMRC and the legislation will push it that way. Again, to borrow one of Matthew Taylor's analogies, in the scrap metal world Government pushed that industry that way and said, "You cannot do a cash transaction to buy lumps of scrap metal anymore. You do that in a cashless way". If the self-employed were pushed into a cashless society that is when this sort of thing could happen and it could, from a technology point of view, happen quite quickly.

Q84 **Steve McCabe:** What about these ideas that the Government have floated? I think Richard Harrington, when he was briefly at the Department for Work and Pensions, suggested that he was interested in a tax return approach. I think Steven Webb wanted to increase Class 4 National Insurance contributions. Are they feasible or are they ideas that have gone by the board now?

***Gregg McClymont:*** I see construction in particular as a heritage of our organisation. We think it is hard to see any way to do it effectively that does not involve a tax return. We have in the past trialled on a pilot basis just in our own organisation ways to bring construction self-employed on board and our conclusion was it is hard to see a way to do it that does not involve using the tax return. That is a big political challenge potentially around making self-employed people pay more, but we find it hard to see a way to do it otherwise.

***Zoe Alexander:*** To take Adrian's point, Steve Webb's idea is attractive but it is not automatic enrolment. You cannot maintain that inertia through the tax return process and the process of choosing a scheme to enrol in. There are other pieces of work going on, so the NEST Insight Unit, our in-house think tank, is working with DWP on things that we could do in the meantime before we can get to a structural place. I am really interested in the Matthew Taylor work as well. Are there things you could do through platforms? Thinking about workers with some synergies through NEST membership, so Uber deliveries, people working in the gig economy, could you put things like set and forget mechanisms into platforms so that when you get paid a certain amount is portioned off to a pension? I think there are things you can do and test and it is the right time to be doing that.

The other thing I would say is the self-employed are not amorphous. It is very different and at different levels and there are many more women coming into that group, there are many more low earners who come into that group so you may well find you need different solutions for different sections of the group as well.

Q85 **Steve McCabe:** With these trials that the Government say they are engaging in, I think they run through to the summer of this year, what kind of things are they revealing?

***Zoe Alexander:*** That is exactly what I was mentioning, so the NEST Insight Unit is partnering with Government to think about this platform issue, and also look at behavioural prompts, so framing. In the realms of communication are there certain things that we could show to self-employed people like family framing and things that would make them more inclined to save? It is at that level for this group might this work, for that group might that work? I do not know if there is anything that others want to add.

Q86 **Steve McCabe:** So it seems like a technological solution and it may involve some kind of use of the tax return and it may have to be much more varied because they are not a single group. That seems fair enough. Can I just very quickly go back to the question of micro-employers? I think Ruth raised the thing about accountants and I think it was NEST who said that most very small employers tend to go down the accountant route. Is there anything that can be done to make it easier for these small employers? I think this Committee originally suggested that we thought the Government might consider adapting the basic PAYE tool and the Government said, "No, because we are changing that so we do not want to go down that route". Is there anything that can be done in terms of new technology that would make it easier for these very small businesses? It does seem ridiculous if the amount of pension contribution is almost as much as the accountant's fee. You can see why it does not work very well. Is there anything you would recommend that would help people in that predicament at the moment?

***Adrian Boulding:*** I would recommend them to use a payroll bureau. A payroll bureau is a service that offers a number of payroll services to small employers, so it sorts the pay, the delivery of that, it sorts the deduction of tax and National Insurance and a payroll bureau can also sort the pension contributions. We provide software that links with payroll bureaus and makes it very easy for the employer and the payroll bureau to work together and send the requisite information to NOW: Pensions.

**Chair:** Would anybody else like to make an advert of what they do?

**Ruth George:** Can I say that it was a payroll bureau that was charging another £35 a month to do the pension on top of the payroll?

Q87 **Steve McCabe:** So a cheap payroll bureau, I think.

***Zoe Alexander:*** By and large our satisfaction rates from employers are really high and they barely touch our site, barely call us. I appreciate that sounds like an advert, Frank, but others would say the same. I think when you have straight-through processing and particularly when employers are leaning on intermediaries or other parties to help them with it, it is a very simple, easy process. We should not overestimate the size of this issue, because I am not convinced it is that large.

***Colin Clarke:*** I do not have anything different to add.

***Gregg McClymont:*** Just the obvious point, there is no doubt a cost attached for micro-employers. There is no doubt about that. I guess we would argue that getting auto-enrolment is a mass system. The trade-off is more than worthwhile, but we have to acknowledge that for small employers and micro in particular there are costs attached to this, beyond just the contributions.

**Chair:** Thank you very much. That was a really good session and I hope we have proved the vigilance of nerds might result in higher pensions. Thank you very much indeed.