

Work and Pensions Committee

Oral evidence: Protecting pension savers - five years on from the pension freedoms: Saving for later life, HC 989

Wednesday 23 March 2022

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Members present: Stephen Timms (Chair); Debbie Abrahams; Shaun Bailey; Siobhan Baillie; Neil Coyle; Steve McCabe; Nigel Mills; Selaine Saxby; Dr Ben Spencer; Chris Stephens; Sir Desmond Swayne.

Questions 41 - 85

Witnesses

I: Christopher Brooks, Head of Policy, Age UK; Sue Ferns, Senior Deputy General Secretary, Prospect Union; Nigel Stanley, Chair, NEST Members' Panel; and Sophia Dimitriadis, Senior Economist, International Longevity Centre UK.

II: Laurie Edmans, Commissioner, Financial Inclusion Commission; Leah Evans, Chair, Institute and Faculty of Actuaries' Pensions Board; Steven Taylor, Honorary Secretary, Association of Consulting Actuaries; and Martin Willis, Chair, Defined Contribution Committee, Society of Pension Professionals.

Written evidence from witnesses:

[Age UK](#)

[Prospect](#)

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[Financial Inclusion Commission](#)

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Examination of witnesses

Witnesses: Christopher Brooks, Sue Ferns, Nigel Stanley and Sophia Dimitriadis.

Q41 **Chair:** Welcome everybody to this meeting of the Work and Pensions Select Committee where we are taking evidence for our inquiry on saving for later life. We are delighted to welcome the four witnesses to our first panel. Thank you all very much for being here. I will ask each of you, very briefly, to introduce yourselves to us, starting with Christopher Brooks.

Christopher Brooks: Good morning. I am Christopher Brooks. I am head of policy at Age UK, the charity for older people.

Sue Ferns: I am Sue Ferns. I am the senior deputy general secretary at Prospect Trade Union.

Sophia Dimitriadis: I am Sophia Dimitriadis. I am a senior economist at the ILC. We are the leading thinktank looking at the impact of longevity in society, taking a life course approach.

Nigel Stanley: I am Nigel Stanley. I am chair of the members' panel at NEST. I don't speak for NEST, but I speak for the members' panel.

Q42 **Chair:** I will put the first question to you. We have heard in this inquiry contrasting views about whether a new pensions commission is needed, 16 years after the last one. What are your views about that? Whatever that might be, what do you think are the key pension policies or issues to be addressed at the moment?

Christopher Brooks: I think, if you take a step back and look at the bigger picture of auto enrolment and where we are, it has been a huge success. We have so many more people saving. Nearly 90% of eligible jobholders are now saving to a pension, which is fantastic. Having said that, of course, we can start to see some of the flaws emerging, some of the gaps where there are under-pensioned groups and where the system isn't working quite as well.

Like any system, any institution, it needs to be flexible and adaptable. We need to think about how it can change to best meet future need. There is definitely scope for change. Whether a commission is needed, I am not convinced. Twenty years ago, there was almost a perfect storm where we were heading towards huge swathes of the population not saving into a private pension following the decline in DB saving. We were looking at a potential economic disaster as well in the longer term and it was just a huge problem.

All of these forces came together to make it a perfect time to get the wider buy-in from employers' unions, industry and across the political spectrum as well to make a commission the best and probably only



HOUSE OF COMMONS

solution to implement long-lasting reform. It worked brilliantly. It did all the heavy lifting and built the foundations in the first storeys of the building. It is now up and running fully and it is a good time to review and think what we need to be doing to move forwards.

Going forward, as I mentioned, there are some gaps around pension provision and we need to be looking very carefully at how we can fill them. I think it is clear that the statutory minimum is not enough to generate a decent standard of living in retirement for most people. It definitely needs to be raised in some way, probably with an emphasis on increasing employer contributions. I know the PLSA has set out a plan to do that, which looks broadly quite sensible, moving towards a 50/50 employer/employee contribution system. That will take time to get buy-in to and build the support to make that work. It is not a quick fix. We are probably looking at 10 years plus to set this up and make this happen.

The Government needs to absolutely start working towards this now and I think it becomes increasingly important that the Government can set out an strategy of what they want to achieve and how they are going to achieve it, and put in place a timetable. Otherwise, it always looks like a problem for tomorrow and not for today. As part of that, you can redress some of the issue with under-pensioned groups as well.

Sue Ferns: I agree. I think the original Pensions Commission has been very successful in resulting in mass participation in pension schemes, which wasn't the case before. I also agree that there are things that Government should get on and do now to make improvements in the arrangements that we already have.

However, we do think there is a case for a new pensions commission to set the pace on pensions policy for the decade ahead, because the truth of the matter is that we have gone from a situation where millions of workers have had no occupational pension to one now where millions of workers have an inadequate occupational pension. That is not just a matter of tweaking existing arrangements. It does require some more fundamental action.

We also think, in terms of an agenda for a new pensions commission, there should be a particular focus on pensions provision for the self-employed, which we think is a major issue. Participation in pension schemes for the self-employed is now lower than it was in 1998. I am not sure there is an easy solution to that, so it is the kind of issue that we think a pensions commission could usefully look at.

The other issue is about women's pensions and the gender pension gap, which isn't even on the agenda in the way that it should be now. We do think the Government could take action, but a pensions commission could really focus attention on that, because pensions inequality is a key component of inequality in society generally.



Sophia Dimitriadis: I would echo the point about the success of the previous Pensions Commission in introducing automatic enrolment, but there are still key issues we need to build upon. As has been said, the current rate that most people are saving at are inadequate, particularly for younger generations. For generation X there is an urgency to save more and millennials are even more at risk, but there is more time to support that group.

We also mention the gaps, so, for instance, the self-employed, those on low incomes—that is going to cause huge inequalities—and increasing numbers of people moving to self-employment. We also see that many people are not engaged with their retirement savings. At the moment, there is a lot of responsibility; if you want to accumulate sufficient amounts for retirement and to decumulate, there is that increased responsibility. I don't think that is the main issue. I think it is about building on the success of automatic enrolment and tackling that inertia, but people aren't engaged, and we are requiring them to be engaged at the moment.

The final issue is the workers' trend, which means thinking about whether we can push people to save more or work longer; the other option is being poorer in retirement. I think we are seeing very negative trends in people of older ages working in later life. That has a significant impact on retirement savings. About 600,000 people aged 50 and over are looking for work since the pandemic. That is a break away from previous trends. That is very important.

Taking all that together, I would agree with Sue's point that it would be useful to have an independent ongoing pensions commission potentially making recommendations every five years. This could sit alongside the state pension review and potentially every year have a statistical piece on the state of the nation. The key reason we would call for this is that trends change quickly. Look at the labour market changes, which are very relevant in terms of thinking about pension savings. We are not where we want to be.

I think many of these changes might be building on the success of automatic enrolment. They are very complex. We are probably not going to change them overnight, so I think having that ongoing independent pension commission could be really supportive. If you look at places like Sweden, they have an independent group and that has been quite successful. We would really support that idea.

Nigel Stanley: There is an important lesson to be learned from the way that the Pensions Commission worked in the first place. It came forward with a radical set of proposals with auto enrolment. It completely changed the way the pension system worked, but it did so because it had some smart people on it representing different parts of society: an employer person, a union person, an expert person. They were able to work out: how can we make a big change like this into a new political



HOUSE OF COMMONS

consensus? That is, in many ways, the great achievement of the Pensions Commission—that we went from a system where we asked people to save and they didn't to one where we auto enrolled people.

We did it with a big step change. It took some time. It was phased and staged carefully, but without that original imagination and political creativity I don't think we would have made that step. I think that is the case for having something like a Pensions Commission in the landscape, and I would go for a permanent one making changes.

My colleagues have already identified the big issues, but one of them is adequacy—are people saving enough? Another is decumulation; how do we make that work? We don't. We have consensus around saving, but I don't think we have done the work to build a consensus around mechanisms for decumulation. Another is coverage. The labour market has changed. There are different kinds of self-employment, more people in multiple jobs, the gig economy and all these issues. You cannot solve the employment issues through the pension system, but the pension system has to work with the employment system we have, and I don't think it does at the moment.

Q43 Dr Ben Spencer: My questions are on auto enrolment and changes to that. Following the Government's review in 2017, they said that from the mid-2020s the minimum age for auto enrolment should be reduced to 18 and contributions paid for from the first £1 of earnings. Should this be done more quickly, or is there an issue with doing it that way, and would you prefer a phased in approach to these changes?

Christopher Brooks: It depends on what the precise recommendation is, but with a lot of them there is no reason for any further delay. They can be done quickly and easily and would make a real difference to people. The longer you wait, the less people are going to save and the less money they are going to have in retirement. With other things that may be slightly harder, it may be sensible to set out a timetable and phase them in, but some of them—for example, the first £1 saved from the first £1 of earnings—are relatively easy to do and should happen as soon as possible.

Sue Ferns: I would agree with that. The Government should stick with the plan, implementation from the mid-2020s. Phasing in is probably sensible. We have endorsed proposals from Onward thinktank for that to be the case, but having a roadmap and getting on with it is essential.

Sophia Dimitriadis: We would support implementing this as soon as possible. From our perspective, a significant proportion of generation X—30%—is expected to be at a minimum standard of income in retirement, or below that. I think that does not seem like a policy that would cause too much harm. Therefore, introducing that as soon as possible would support low-income groups.



Nigel Stanley: I would agree with that. The important thing is getting a timetable so everyone knows it is happening. Again, you have to build consensus around staging and you have to bring employers on board. They probably don't want it all overnight. I would rather we had a timetable announced now, even with quite slow phasing, than just put it off because it is too difficult. That would be my key point.

I would also add another thing that we need to build into the process, which is lowering the earnings trigger. That was excluded from the automatic enrolment review, but how do we get more women saving? How do we get people with multiple jobs? How do we get the gig economy workers saving? I think lowering the earnings trigger is also part of the infrastructure of auto enrolment. That needs to be part of the general conversation about having a roadmap, and a timetable for increasing coverage and getting saving up.

Q44 **Dr Ben Spencer:** Thank you for your answers. I would like to bring up two concerns. At the moment we have a cost of living crisis, and this will put extra pressure on people. Admittedly, I recognise that there is never a good time to do changes like this. The other concern is around how to tackle the issue with young people who have multiple jobs, so they have multiple pots of pensions through the auto enrolment process. Do you have any thoughts on that and how the speed in the process may help with those issues?

Nigel Stanley: Having a cost of living crisis cuts both ways. It also shows that people need better pensions, too. There are a lot of pensioners going into poverty because they don't have an adequate pension and the state retirement pension may not be enough to cover people's living costs.

I am sure that pensions people would like to do everything overnight, but it is not going to happen. I think the lesson of this is: make it clear what you are going to do. Give people plenty of notice. Try to get the biggest consensus you can around phasing and staging these things.

Sue Ferns: I think that is right. Clearly, there will be limitations on the amount that people can save during a cost of living crisis but there does need to be a roadmap and there does need to be a clear timetable for that to happen.

As regards younger people, we are mindful of the survey by the Pensions Management Institute, which showed that 82% of young people in work believe that pension saving should start before the age of 22. There is a recognition of the importance of this and the need to get on with it. Of course, the longer that people have to save, the less of a burden it becomes on them.

Christopher Brooks: Yes. I think you see that with lower opt-out rates for younger age groups as well. There is a demand for saving among the youngest people in the workforce. Bringing forward the age at which auto



HOUSE OF COMMONS

enrolment starts is a sensible thing to do. It can also be done fairly easily—or maybe it needs primary legislation to do that. It should not be too complicated to put through, and there is a broad consensus in support of it. It seems like a sensible course of action.

One of the points you raised was around having lots of tiny pots for people who might be saving a lot. The DWP was looking at small pots and what to do with this. It seems to have stalled a bit recently. I think they also need to pick up on that and come forward with some kind of solution, because that is part of the process. Although some people might say that the dashboard will solve this, I am a bit more sceptical about that. If you have loads and loads of tiny pots, because you have multiple jobs or you move around a lot in your career, that could mean the dashboard isn't going to be in a good position to help you out. Some kind of solution involving a pot for those members is probably necessary. I would also encourage the Government to keep working on resolving that issue.

Q45 Nigel Mills: Can I just pick up on the no minimum earnings band? I think it makes sense, if you have somebody doing multiple jobs and earning £30,000, that they should start paying from the first £1, but does it make sense for somebody earning less than £10,000 to be losing 5% of that to pay for a pension when they are going to get a 90% replacement rate from the state pension when they retire? I feel you are making people with not very much unnecessarily worse off in their working life, if you are not careful. Wasn't the whole principle of this to try to get replacement earnings level when you are in retirement? We should not lose sight of that principle.

Sophia Dimitriadis: The support for which we have argued for those earning below the automatic-enrolment threshold is to potentially auto enrol them into a sidecar saving scheme. We think this suits their constraints. We know from our research that a key barrier to saving is insecure earnings and outgoings, so there is that insecurity. About half rarely or never save for a rainy day. Having those basic rainy-day savings before saving for a pension is really necessary for this group.

When it comes to introducing them to that savings habit, we know that a significant proportion—I can send over the stats, but I think it is 28% or more—don't have a pension. Clearly, there is that inertia to save into a pension, and getting into that saving habit is important. I don't think it would add that much cost. It is more about getting into that habit. As I said, if we had a sidecar scheme, it would ensure that they had sufficient money in their accounts and they could build upon that when they earn more and are able to save more into pension.

Sue Ferns: I think the issue with this is you have to look at why these people are earning below the £10,000 minimum rate, and they are overwhelmingly women who are working in part-time jobs because of their caring responsibilities either for children or for sick relatives. That is



the reason why they are in this situation. We think that reducing the threshold will bring more than 100,000 people into auto enrolment.

The related issue, though, is that they are not getting sufficient credit through the pension system for those caring responsibilities, and we think that is perhaps best done through the state pension provision. We all know that it is very difficult to live on state pension. It is a question of balancing what you pay now and what you are getting later, but there are improvements that could be made for carer responsibilities within the state pension system by giving people credit.

- Q46 **Nigel Mills:** I will move on to the adequacy of savings. One of you mentioned that we now have millions of people saving. They are going to get a horrible shock when they get to retirement and find that they have a pension, but it is nothing like enough for the standard of living they want. When should we look to hit the magic 12%? Is that something we should be doing quite quickly, or should we try to do it by the end of this decade? Do you have any views on when we should move to that?

Christopher Brooks: It takes time to build a consensus to make that a reality, and I doubt it can be achieved this decade. I think you probably need to set out a plan to gradually increase contributions. It will be difficult to get employers to accept it. That is exactly why we need a timetable. We need a clear vision of what the Government want to achieve and a timetable for achieving it. Otherwise, it becomes an intractable problem and there is always a lot of opposition. There is never a good time to do it. We need to be clear about what we are trying to achieve and how we are trying to achieve it.

Sue Ferns: We support the PLSA proposals for a gradual increase to 12% by the end of the decade, with 6% of that from employers. Clearly, the first priority is to get people contributing from the first £1, but we do need that gradual phase in. Our aspiration for the minimum is a one-for-one contribution of employers and employees. That takes you to 12%. That is still at the very minimum level for an adequate income in retirement. Our aspiration would be a two-to-one ratio, because I think that is the only way where you get to 15%, which is when you are starting to get towards a decent retirement income.

I accept there will be different views about that phasing in with a fairly ambitious timetable, because we have to address this problem of people not having adequate pension income.

Sophia Dimitriadis: I support the point about phasing in within the decade, just because there is such an urgent need. We have recommended potentially adding some flexibility, so allowing people to temporarily revert to an existing minimum—there can be different examples of how to do this—but ensuring that they do then revert back to a higher minimum.



HOUSE OF COMMONS

In the case of going into debt or affordability constraints—our research shows that the main reasons, for instance, that generation X is struggling to save are affordability constraints and prioritising paying off debt—a lot of these financial constraints are temporary. I think there was a report arguing that people could default it back to the minimum after a certain period of time and it is up to them to then keep it low if they need to, but we need to ensure that they are not staying at a lower minimum.

Giving that flexibility, given that we have some difficult economic circumstances, can then mean that for the majority we can move towards increasing that minimum. We need to do so, so I don't think that we should delay.

Nigel Stanley: This is a big change in the pension system. We all recognise we need it. The challenge is: how do you get there? It is expensive and difficult. I think it comes back almost to my answer to the first question: you need to build a consensus among politicians. It is going to be more than a one-election, two-election, three-election process. You have to get employers on side. You have to get workers on side. You have to get consumers on side, and you have to have the infrastructure to deal with it.

We need a way of building a consensus around the timetable. I don't think it is going to happen very rapidly, particularly given the economic circumstances at the moment. However, it is better to start doing it slowly than to put it off because it is too difficult.

Q47 **Nigel Mills:** Do we not have a consensus, though, that 12% is the minimum pension saving? I don't think the Opposition or the Government disagree with that. What we need is someone to decide a timetable. I am not sure a two-year long pension commission taking us up to the next election and then sorting out a timetable is a particularly encouraging way of doing this. We have seen very low opt-out rates. Where is the evidence that savers would opt out if we tried to push them up to 7% by the end of the decade or something? I am not sure that is there, is it?

Nigel Stanley: I think you are much more optimistic about the political acceptability of this in a wider sense. If you get anyone who knows about pensions in a room, they say, "12% is the minimum. We need more than that and we need it now". The thing is that I am not sure that that goes much beyond that when you look at some of the controversy around recent tax rises and things, which look rather like pension increases to both employers and workers.

I don't want to argue against a rapid timetable, because I am all in favour of it. The difficulty is getting the political buy-in for it to be a priority, particularly when things that are more exciting and subject to less consensus become talked about in political circles. Yes, if you think we can do it straightaway, let's do it straightaway. I am merely saying that if we cannot, let's try to think through mechanisms that can bring a creative consensus and bring people on board. That is my point.



Sue Ferns: I am more with you on this, in the sense that the lesson from the original pension commission is ambition is what delivers results. This may be ambitious—and Nigel eloquently outlines that it is—but we need to do this. We need to deliver those results, otherwise we will continue to have this problem of inadequate pension saving for generations to come. I don't know whether the end of the decade is reasonable, but I think that is what we should be aiming for.

Q48 **Chris Stephens:** I have a number of questions around advice and guidance, particularly because it is my 49th birthday on Sunday. Christopher and Sue, the Committee has already recommended the trialling of automatic Pension Wise appointments for people at age 50. That gives me a year. Is that something you support?

Christopher Brooks: Definitely, yes. I wholeheartedly agree with the Committee's recommendations, and I can only imagine that you are counting down with excitement the next year until you can access Pension Wise. It is the right thing to do. Pension Wise is a good service. It has very high approval ratings—in the 90-something percentile—but it is very underused at the moment. It is a shame that the Government have not pushed more people towards it. It just strikes me as slightly odd. It is a very successful service that they have set up. If I were in Government, I would be wanting to claim some of the credit for that, but it seems that the stronger nudge is only going to make a tiny difference. I think the pilots showed an 8% increase in Pension Wise usage.

It has to be something more significant than that. What we have been suggesting is that there should be trials of an automatic appointment system and see how that works. It seems to have quite widespread support now. I think a lot of other stakeholders would agree that that is the best way forward. Once the pilot has been run, we can have a look at the evaluation of them and see how well they were working. Maybe they can be tweaked. Otherwise, I fear that we are going to be waiting several years while the stronger nudge is implemented. Then we will wait a few more years to see how it works in practice, then a bit more time until it is evaluated. Then, before you know it, 10 years have flown by.

Pension Wise take-up is still extremely low at the moment. It is around one in six pots if you go through Pension Wise, and we don't even know how many people use it because the data are not recorded. I think the Committee was exactly right with its recommendations in the previous report. That is what we should be pursuing and what the Government will hopefully take up in the near future.

Sue Ferns: I agree with that. I don't think it is all down to Government. Government could do more, but employers could do more as well, both in relation to Pension Wise and other guidance and support for their employees.

We can see that working in some of the areas where we have members. For example, we represent the specialists and managers at BT, and they



HOUSE OF COMMONS

are a very good example of how the employer has worked with us and with them to improve financial literacy. They have a partnership at work where they proactively provide presentations to help employees.

We also try to use pensions awareness days. Yes, Pension Wise, more for Government to do, more for employers to do, work that we can do in partnership with employers—all of that is good. At the end of the day, there is going to be a limit as to what advice and guidance can do to help people who have very small pots. It is contributive and it is not going to be the main driver.

- Q49 Chris Stephens:** I will have some questions about that later on. Nigel, the Institute for Fiscal Studies argues that an engagement at around 50 could be used to encourage people to increase their contributions if need be. It seems sensible that we try to merge these two ideas: a Pension Wise appointment at 50 and then the discussion, if need be, to top up their pension pots. Is that something you would agree with?

Nigel Stanley: I think that is right. Getting people engaged with their pensions is hard because most people do not understand pensions. They sound frightening, and people do not understand the choices. You have to do three things with engagement. I would limit it to this. First, you want to make people aware they have a pension in the first place, which a lot of people are not. Secondly, you need to make them think about saving more voluntarily on top of what they are already saving. A 50 appointment, a 40 appointment—anything that can do that is good. Then they have to start thinking about decumulation as well, and how they turn their savings into what they want to do in retirement.

I am all for Pension Wise appointments and everything that has been said, but, on the other hand, that section is about how you are going to make people navigate a system that does not work. We have not done the thinking and made the innovation and done the good things about how decumulation will work. It would make a Pension Wise appointment much easier if we had a decumulation system that worked for people in a much better way.

Anything that can do this is great, but on the other hand there are always going to be people who do not turn up to the Pension Wise appointments, or people who do not act on the advice that they are given, and the system must work for them too. That is the lesson of auto enrolment and the Pensions Commission, that the system must work for everybody. There must be good governance, good paths, good ways that if people are not equipped or do not want to get engaged, they will still have a decent retirement.

- Q50 Chris Stephens:** Sophia, what do you think about Pension Wise appointments and at that point engaging with people so that they can increase their contributions if need be?



Sophia Dimitriadis: That is an interesting idea and from our research the main source, at least for generation X, of information they want is guidance over advice. The majority want guidance. They are not confident about saving for retirement, so we need to increase options. The key reason that they do not is they are not aware that there is any free guidance out there. That could be an interesting idea and would not cost too much. I would argue we want to signpost to Money Helper guidance that does offer some guidance on accumulation at an earlier stage, so maybe at age 40 you would give people a lot more time to accumulate.

I don't think this needs to be that complicated. Looking at what people want to know, like you said, a lot of people do not even know they are saving into a pension, and they do not know about how much is needed to achieve an adequate income for retirement. The majority of Gen X do not know that, which is quite surprising, and how to link that into living standards in retirement. The PLSA and the Institute of Actuaries have already done some brilliant work to provide that, but people are not aware and there are so many different benchmarks out there. The Behavioural Insights Team has also shown that showing people what they can achieve in later life does increase saving, so there is a lot of evidence to support that this works. I definitely agree that is key.

People do not understand tax relief. We know that homeowners with a mortgage are very interested to understand how much to save in a mortgage, relative to a pension. That is a complex issue, and Government guidance would be better placed to talk about that issue. I am not sure that people are making the right decision there. Over 60% of that group— that is, half of generation X—say they cannot save more because they are prioritising paying off debt, so that is paying into a mortgage. Whether that is the right decision depends, but I am not sure if people are well enough informed on that, and that is a key reason why they are not saving more. That is a more complex issue, but the others are quite easy.

It is something that we can increase, but signposting to the guidance at earlier ages and different life stages could be key. We know that people have a lot more money to save once they have bought a house, once they have paid off their mortgage, when their children leave home, when they have paid off a student loan at age 40, mid-life, so there are a lot of options to signpost. Clearly, people want this information.

There are also disadvantaged groups. We know women are particularly keen to receive guidance and are less aware that it exists, so we could support disadvantaged groups with a policy like this.

I will add there are other solutions that we have recommended as well, so one idea is to encourage or mandate employers when somebody moves job or starts work to show an infographic, a small video, about how to translate pension savings into living standards in retirement. That



HOUSE OF COMMONS

is something simple that so many people do not know, and it can make a big difference. You have the Behavioural Insights research to back that up and there is very little cost in a policy like that.

- Q51 **Chris Stephens:** Sue, I want to come back to you, because I think you made an important point about small schemes and small employers. In our “Accessing pension savings” report, we recommended that the regulators and MAPS produce a plan to increase the number of schemes for employers using the guidance. How can they bring smaller schemes and smaller employers into that process?

Sue Ferns: I do not know the answer to that.

- Q52 **Chris Stephens:** Okay, but it is something that they should be aware of?

Sue Ferns: Yes.

- Q53 **Chris Stephens:** Nigel, the Committee also found that mid-life MOTs were not providing the support people need and recommended that DWP and MAPS work to develop an effective format and delivery route for them. What format would you like to see trialled?

Nigel Stanley: That is a very big question that requires a lot of thought. I don't think the dashboard is going to change behaviour in the way some people think it will, because we know changing behaviour is hard, but it makes giving advice, drawing up default routes to decumulation and things like this much easier. In some ways it is about planning to do it better in the future. I am not sure I can think of any magic wand you could wave to make things much better now. You must get the system properly working before you can give the great advice and do the great MOTs properly.

- Q54 **Chris Stephens:** Christopher, my last question is to you. Do you think there is enough progress being made in creating dashboards, and do you have a view about the importance of pension dashboards going forward?

Christopher Brooks: I agree with Nigel that dashboards on their own will not change behaviour as much as some people might think, but it is a good idea. We are getting there slowly with it. It is taking a bit more time and will need to be phased in. They do need to include pensions already in payment as well, which are not scheduled to be included, at least initially. Otherwise, they will fail to give people the overview that they need of their retirement income, especially if they have accessed their lump sum and then are looking at the dashboard after that as a way of helping to plan for their retirement. If they cannot see some of those pensions, it is not going to provide the holistic picture.

In the longer term, DB pensions will be brought into it as well, and that will give a more complete picture. It is important to keep going with it, even if that is a phased approach, and in the end hopefully we will get there, but it could be a bit quicker. It will provide a useful tool to support



people as they plan for their retirement, but whether it will drive behaviour change is doubtful.

Chris Stephens: Thank you very much indeed. I am waiting patiently for my Pension Wise appointment.

Chair: I am pleased to hear that, and happy birthday for Sunday.

Q55 **Sir Desmond Swayne:** Sophia, the over-60s have particular difficulty in saving sufficiently for a reasonable retirement income. Given the focus that you have given to the 37-year-olds to 57-year-olds, or generation X, as you call them—why is that?

Sophia Dimitriadis: As mentioned, I think a greater proportion of millennials are on track to receive an adequate income—over 50% in PPIs estimate—over 30% of generation X. The key reason we are concerned is that there is that group that have significant gaps in pension contributions, because of the delay in receiving the introduction of auto enrolment and the decline in DB, so there is a group that will not have DB pension savings and will have those gaps who will be disadvantaged. About 44% have significant gaps in their pension contributions.

That is combined with social and economic landscape changes, so we know that increasing house prices relative to earnings will particularly affect the youngest gen X. You have those financial priorities. A greater proportion are going to be caring in later life. They are also looking after children in later life, and that makes things more difficult. There is also a greater gap between healthy life expectancy and life expectancy for the youngest gen X. There are different issues that are going to affect this group, compared to baby boomers, but the number one issue is the urgency.

It is about 11 to 22 years until they reach the state pension age, so we have some time, particularly for the youngest generation X members, but we need to act soon. For the oldest, we can definitely try to support them to save more, and we see nearly four in 10 expect to work past the state pension age to support themselves. I am not sure if they all can, but we need to support them to do so, because some will not have that much time to save until the state pension age. That urgency is the main issue.

Q56 **Sir Desmond Swayne:** What are the implications of what appears to be a post-pandemic trend of the over-60s leaving the labour market entirely? I am happy for anyone to pick that up.

Nigel Stanley: Looking at the figures, there seem to be two things going on. If you look at the pre-pandemic figures, there was really quite a marked increase in the number of people working longer, and the pandemic has produced this possibly one-off event of people deciding that they quite like not going to work every day. I do not know whether that is people who had good savings already, or whether they are people who are going to find it very hard to make ends meet. That is the gap in the data we have.



HOUSE OF COMMONS

I think some of them will probably then go back into work or find other jobs or work part time, because one of the things that the figures do show from trends that we can see from before the pandemic was that there was a growth in people making the transition to retirement that has been talked about in policy circles for a long time—people moving to part-time work or doing other jobs before they stop working altogether. It is very hard to know exactly how all the effects of the pandemic are going to work their way through social policy, and I do not have a policy crystal ball either.

Sue Ferns: I think Nigel is right. The key issue here is about whether people have chosen to do that, or whether it is being forced upon them because of the effects of the pandemic, depending on what sectors they were working in and what jobs they were doing. We have certainly seen some members who have chosen to leave work earlier than they might have done pre-pandemic, but with good occupational pension schemes, so that is a valid choice for them to make.

The ones that we need to be worried about are the ones who have lost their jobs because of the pandemic. As you get older, of course, we all know that it is more difficult to get new employment. They are the ones we should be worried about.

Christopher Brooks: The Institute for Employment Studies has done some interesting analysis around labour market trends since the pandemic, in particular the older workers who dropped out of the labour market and moved to inactivity. It is quite a mixed bag. No one fully understands the reasons why this has happened, but some people in professional occupations have stopped working, probably as a choice. Then again, there are lots of other lower-paid people, particularly women, who have moved out of work. Some of it will be directly connected to the pandemic, like cleaners who have stopped working in quite large numbers, probably because there was less work around in the pandemic and people have chosen or decided not to move back.

There is a question around whether that is temporary and whether people will go back, but a lot of people have retired, or that is what they say to the ONS. A lot of people do, however, unretire and go back to work. Around one-quarter of people retired and then went back before the pandemic, so maybe it will be higher numbers. People are probably just a bit of sick of working in low-paid jobs without much prospect and control. Those are poor quality jobs, on the whole, and so they are maybe having a break, or maybe they have picked up caring responsibilities and cannot go back. I know that Treasury are very interested in this now as they recognise it as a significant economic problem.

In terms of saving among older people, I do not fully see why there is an upper age limit to auto enrolment. People past their pension age would benefit from employer contributions and the government contributions just as much as anyone else would. It does not really make sense to stop



it at state pension age. I think that group tends to get forgotten about in this debate. There is rightfully a lot of focus on younger people, but we should also think about what is the right solution for people who are working past state pension age, and that could help facilitate better quality retirement for a lot of people.

Q57 Sir Desmond Swayne: The Institute for Fiscal Studies has drawn our attention to what it considers to be a significant problem, which is the historical growth in the relative generosity of post-retirement benefits as against those paid to people just under the age of retirement who are not working. Do you agree that is a significant problem? What does it do to the price of fish? How should we deal with it? Should that be something left to the Neville-Rolfe inquiry, or is it something that needs to be addressed more urgently?

Christopher Brooks: There is clearly a significant gap, which as the IFS point out has grown over the years. From my point of view, there is still a lot of poverty among older people. There are a lot of people living on a very low income, so levelling down older people is definitely not the right thing to do. The solution lies in levelling up younger people, people below state pension age, so that is very much where the focus should lie.

In terms of specifically the transition to retirement, which obviously Baroness Neville-Rolfe is currently looking into in her review, there is clearly a cliff edge that is quite problematic for a lot of people. We have argued in the past that there should be some kind of transition put in place, effectively. Realistically, a lot of people are not going to work again and, whatever Jobcentre Plus might believe in terms of whether it can help them back, they are quite simply not in a position to work. That may be because of disability, caring responsibilities or perhaps living in a very isolated area. There are lots of reasons why people cannot work, but they are probably going to really struggle.

We believe that there should be some way of smoothing the income. Instead of letting people either live on Universal Credit or drop out of the system altogether, there should be some kind of transition to retirement. That could be through allowing early access to Pension Credit, early access to the state pension, or a top-up to Universal Credit payments for people who may be carers or have a disability. Something definitely needs to be put in place, because the higher the state pension age gets, the more significant that problem becomes.

There are currently a lot of people just below state pension age, and we hear from lots of people in that position who find it really difficult. We have some research out in the field at the moment, which is looking at people in their 50s and early 60s who are likely to find it really tough. I will be pleased to share that with the Committee when that comes back.

Sophia Dimitriadis: I do agree with the IFS's argument. I think there is scope to look at benefits in retirement, for instance National Insurance exemptions for people working past the state pension age. I am not sure



that that necessarily motivates people to work for longer. Then you have the situation of those that are unable to work to the state pension age who are really struggling. They are saving less for retirement, and I can send data to support that. They are significantly worse off in retirement, but before then they are really struggling due to poor health and caring responsibilities. Those in poor health are likely to receive an unequal lifetime receipt at the state pension age.

There are lots of inequalities there. I definitely think we should look at whether the benefits are being distributed fairly; considering benefits for people with disabilities and those that cannot work until the state pension age, and whether we can support them more financially just before that period; and, generally, just increasing fairness.

I would also like to mention renters. We know that poverty in retirement is increasing, and we know that they are struggling before reaching the State Pension age. I think there is a lot the Government could do to make rent prices fairer, limit increases and increase the length of tenancies. That will become a growing issue as well.

Q58 Shaun Bailey: As I think we heard in the 2017 review, for every solution we have—particularly in the context of self-employed people and freelancers—there is always a drawback. One thing that was brought forward was the idea of using the self-assessment tax return system and the tax system more broadly to help self-employed people and freelancers try to accumulate more of a pension savings pot.

Christopher, I will start with you and then work across the panel. Do you think at present there is buy-in from the system for doing that? Do you think it is a feasible way to do this, or is there still a way to go to realise that solution?

Christopher Brooks: I am far from an expert on this, but I think there is a way to go. There is clearly a huge problem with saving among self-employed people, in particular. They are a very diversified group. I believe that quite often higher earners have also stopped saving to a pension, so there are clearly some systemic barriers to it. That does seem like a sensible way forward to me, but there might be other solutions that I am not familiar with.

Sue Ferns: I think this is a big issue and there is a way to go on this. Just looking at it from a very practical perspective, our members—for example, archaeologists; a lot of them are freelance people who work in theatres—report that the three-month postponement period is a key barrier to them saving more in pensions. We would like to see that abolished or at least reduced to a period of a month. In our written submission we showed how that in itself could make a real difference to the size of people's pensions pots.

We also have to realise the insecurity of employment for a lot of these workers. A number of them are very reluctant to ask or to challenge



because they fear that that will impact on their ability to get a new freelance contract, if they are working between three and nine months, or something like that. There is a bit of a culture issue there as well but, in terms of the practical steps, that is one that we would attach some priority to.

- Q59 Shaun Bailey:** You mentioned the detrimental impact on freelance workers. I have read that the issue around pensions can sometimes put people off engaging freelancers again. How prevalent is that issue for your members—not getting engaged in further work, or being dropped off, as a result of their pension requirements? What have you found to be the prevalence of that issue?

Sue Ferns: It is a varied picture. Freelance work covers a vast range of occupations. In one sense, we are fortunate enough to represent the high skilled end of freelance working, particularly in arts and entertainment. In that sector, we have skills that are in demand and some large employers who can really afford to pay the pension, but the three-month postponement period is still an issue for them.

Then you have the other issue right down at the other end of the market where I think people are facing very tough employment conditions, and unwillingness to pay a pension is just one of the challenges that they face in their employment.

- Q60 Shaun Bailey:** That is very helpful. Thank you. Sophia, I will come to you in terms of self-employed people. What interventions do you think might be the best way we can help with this pension pot issue?

Sophia Dimitriadis: I definitely agree with the points mentioned. This is a very important issue. Our research shows that those people are about five times less likely to have a pension. That is the real reason they are largely on track to miss out on the minimum income in retirement. They are really disadvantaged. Essentially, not being auto enrolled, their inertia to saving is really affecting them—more so than having low contributions. The other key reason mentioned is insecurity. About half say they struggle to save more because they are in insecure earnings. I think that points to the heterogeneity of the group, but half are struggling through insecurity and about half perhaps not so much.

The way I see it is that we really need a solution. I appreciate it is a difficult one, but I do think the sidecar saving scheme does offer a solution. We have called for self-employed adults to be given a choice to either auto enrol in the conventional sense—as I said, it is a heterogeneous group—or a sidecar scheme. I think, without the sidecar scheme, we could see many of those who need to be saving more opting out or struggling, in terms of not having sufficient rainy-day savings and dealing with the fact that on average they have lower earnings and insecurity. I have stats to send if you would like.



I think the key one is that we auto enrol this group into this option or make it a kind of default. I do not have the practical details on how exactly to do that. I think the NEST results showed that generally the sidecar scheme was effective for those who opted in, but opt-in was very low, and they are looking at ways to auto enrol. It is that inertia to saving that we need to overcome. Our quant research showed that the scheme is relatively popular among the self-employed. They are twice as likely to prefer this to a conventional auto enrolment scheme.

I talked about how those on low incomes—those under £10,000—are three times as likely to support this. These groups are particularly favourable. Our qual research supported that, and I think there is other research as well. It just seems that it is a very low cost solution pension for the self-employed. It is just finding how to practically implement it.

Q61 Shaun Bailey: I just want to be clear about the sidecar scheme, because reading about it, it is quite an interesting idea. I know there is the drawdown option in the event that a saver needs to do that. I appreciate you may not have the exact details, but I assume there will be thresholds on that. My only concern is that what you don't want, I suppose, is pension savers within that scheme drawing down a little bit too excessively and not leaving that pot. I am assuming, just for my clarity, that the safeguards would be in place on that scheme to ensure that, ultimately, at the end of it you still have a substantive pension pot there for savers.

Sophia Dimitriadis: Yes, I would agree with you. In terms, of the details, they need to be nailed down, but I would agree with you on that. I think the main benefit, in terms of people we spoke to about this policy, was ensuring that they only save into a pension when their rainy-day fund reaches a threshold, rather than drawing from that pension pot when they need to. We did not even discuss that point. It was about making sure that each month they are saving into pension, but they have that sufficient rainy-day fund. That was what was worrying them.

Building on what I was saying, the self-employed were hit very hard during the pandemic. We know that retirement savings were also affected disproportionately. I do think that this option might be very useful and, as I said, potentially low cost.

Nigel Stanley: I was a member of the same group as Chris Curry and Carl Emmerson, so I know how disparate the self-employed are. I think just saying that isn't enough. If you look at the self-employed, they do start to divide into different types of self-employed people. The traditional self-employed plumber is perhaps the first image we come to. There are people like that, or they might be doing graphic design rather than plumbing, but people like that. Then there are people in the new gig economy world, some of whom are self-employed and some of whom are mixing self-employment. Therefore, I think you need to have a number of different solutions to this.



HOUSE OF COMMONS

Using the tax system may work very well with the first group, but with some of the second group, first of all you have to sort out employment law. I am not sure we understand how to treat people in the new economy in terms of what their rights and responsibilities are as workers, and some are moving to self-employed worker status where they do become eligible for self-employment. If you are a gig economy worker working for a platform, you might have more than one platform. If you are a driver, you might use Uber or one of the others as well, depending on who is paying you best that day. That means you never get to reach the threshold for being enrolled.

There are a lot of issues that need sorting out. Some of the things that are not about the self-employed, like reducing the earnings trigger, end up solving some of the issues around this. That is coupled with a general move in employment law, which again seems rather consensual, that we should treat more people who are currently self-employed as workers, with the rights and responsibilities that go with that for employees and workers. That would also solve some of the issues around this.

We also need to get on with piloting some different approaches because a lot of this is about how people will behave. We can look at economics textbooks to find out how they probably won't behave in practice, but we can try different approaches to see what works. It may be that the tax system doesn't work, but I think we should trial it at least with some kind of pilot.

There are some of the other things that we have been talking about, like looking at the three-month rule. It is not quite self-employment, but serial short-term employment feels a lot like self-employment to the person doing it. How do we get that into the system as well? It needs a kind of look in the round at all of these issues without saying, "These are the self-employed. Here is everyone else". It is kind of a new, rather insecure, flexible, which is sometimes good and sometimes not so good when you are at the other end of it.

Shaun Bailey: Nigel, on that point, I totally hear what you are saying. We are effectively trying to mirror an employment-type scenario where you would be enrolled. If we look at the here and now, though, it certainly seems to me that we have a structure that requires the individual in that self-employed space to take a proactive decision. How, in the here and now, can we ensure that savers in that self-employed spectrum can do that, or encourage them to do so? Does there need to be some form of financial incentive to do that?

I am conscious that if you are in the gig economy and you are going hand to mouth, effectively, from job to job, your priority is not going to be putting into a pension pot. It is going to be getting from day A to day B while you are trying to get work. We talk a lot about pushes, but do there need to be raw incentives for people in that space to be saving as well?



Nigel Stanley: That might come out of a proper review of how this sector works. In many ways, in a kind of common-sense sense, people are working for those platforms, whatever the legal niceties. Therefore, the platform should be an employer and should have an obligation to put an employer contribution into that. I think that is the easiest way to do it. Doubling the tax relief, or something like that, sounds very good but I somehow doubt whether that is politically practical.

It is about looking precisely at this and then understanding that the free-for-all doesn't work for people in this respect. It is a lot of little things, but making more self-employed people effectively workers—they may be flexible workers and not all have employee rights, but they are workers in the pension sense and, therefore, get an employer contribution—could make quite a difference.

Sue Ferns: Can I just add to that? I still think that looking at the three-month period—if you are looking for a here and now—is something that could be done here and now. As Nigel has outlined, I do think this is quite a complex issue. Our point of view is that it would be an issue that you would ask the pensions commission to give more detailed consideration to.

Shaun Bailey: That is great. Thank you very much.

Q62 **Debbie Abrahams:** I want to focus on pension gaps. We have been talking about the gender pension gap, which I think is about 38% from the latest figures that we have. I also want to consider other groups with protected characteristics, for example, who may also be experiencing the pension gap. We have talked about disabled people and people with long-term conditions, and I was very interested in your suggestions around that, but what about black Asian and minority ethnic workers? I wondered what your solution was. Throughout this morning, you have mentioned a few of them, but what would be your solutions and recommendations to us around those? Who would like to kick off? Go on, Christopher; you are smiling at me. You get the short straw.

Christopher Brooks: The PPI has done a lot of work looking at under-pensioned groups in society, and I think you identified most of them there. It is people with disabilities, carers, people from ethnic minority backgrounds—some more so than others—and of course women and the gender pensions gap. A lot of it is down to structural open market issues and it is not a quick fix. It is probably outside the scope of pensions to solve some of the problems.

I think other parts of it can be solved. A lot of the reforms that we have already talked about have a role to play in doing that. Things like lowering the threshold and making sure multiple jobs are included are important to doing that. Of course, just encouraging people and reaching out to different groups and making clear that they are aware of the importance of pension saving and what it can mean for their future.



At the moment, there is not that much awareness in the general public about pension saving and the benefits it has. It can seem very distant, if you are saving for an uncertain future. For some people it may be a future that they don't even know for sure that they are going to have. It can be a difficult topic to breach with people, but it is important that everyone is aware of pension saving.

Where we are is a pretty good place, on the whole, so there is a lot to build on from where we are. However, implementing the auto enrolment review reforms is the logical first step, and then looking at how to increase contributions will help too and looking again just at the labour market and working very closely on that side.

Q63 Debbie Abrahams: Sue, I believe Prospect is recommending that we do more particularly around the gender pension gap, and that we do more about monitoring and recording this. Would you also say that for the other groups that are experiencing this pension gap?

Sue Ferns: Yes, absolutely, I would. We talk about it in this room as a thing, but I think there is generally very low awareness about the pension gap. Our work is focused on the gender pension gap, but I take your point entirely and, of course, there are intersectional dimensions to the pension gap.

One of the first things that we would like to see is a Government definition of the gender pension gap or the pension gap, which becomes an official definition that will then allow a greater focus on it. We have the gender pay gap as a recognised measure, but we don't have that for the gender pensions gap. The fact that you have a recognised measure does mean that there is attention to it. You can think about what the size of that gap is. You can monitor it and, therefore, think about what action is needed to address the gap. Clearly, it is not all within the pension system but there are steps that could be taken within the pension system.

Therefore, we would like to see that but, again, drawing an analogy with the pay gap, we are starting to see now not just gender pay gap reporting but ethnicity pay gap reporting. That is probably a model we should have for the gender pay gap, too. The fact of the matter is, though, that we are still at first base without that official measure of it. Therefore, we would like to see it as an official statistic, published on an annual basis because what gets noted gets managed. It is a bit of a cliché, but it is true that unless you can measure it, you are not focusing on it.

It should be one of the DWP's equality objectives to not only measure it but to monitor progress and be clear about what action is needed to address the gender pension gap. It would be good if it was reported annually to Parliament as well, so that there was a debate about it, plans for tackling it and so on. We would like to see that put on a statutory basis. I think you are right that it is about the gaps that exist for various



groups in society but, because we are just at first base, we have focused very much on the gender pension gap.

Q64 **Debbie Abrahams:** Thank you very much. Sophia.

Sophia Dimitriadis: We are very pleased that you are looking at these inequalities issues. Just starting with the gender pension gap—I talked about the research on gen X—we found that one of the key reasons why people are less likely to have a pension, and they are more at risk in retirement, is mainly due to differences in employment due to the extra burden of care. I guess there are no surprises there, but particularly at risk are those who work part time and those who have taken a career break. Those who take a career break and subsequently divorce are even more at risk.

We also see that many are psychologically constrained in the sense that they are overwhelmed with priorities—it is particularly women with children—so just getting a sense that they are probably not going to think about solutions themselves, and that kind of nudging or defaulting is probably needed. Of course, a significant minority are not eligible for auto enrolment because of lower earnings, so that is really key.

In terms of our solutions, the key ones are related to supporting carers to be able to work. I think that will make a huge difference, particularly going forward for coming generations. We have called for all employers to be required to make all jobs flexible by default. There is a lot of research to suggest that that could support a lot of carers to stay in the labour market, and those in poor health. We have called for the introduction of carers' leave. Essentially, we are calling for 10 days' paid entitlement to leave and unpaid leave for six months. That can make a very big difference. Again, the upcoming gen Xs in future years would really benefit from this policy.

We have also called on the Government to review the scope for creating a more level playing field in terms of financial support for carers who want to work, regardless of the age of the person for whom they care. We see that there is some free childcare and tax free childcare support, and a parent who has childcare responsibility would really welcome that. There isn't much financial support for working carers to enable them to continue working, for instance, but that is available in some other countries. We would welcome exploration of that kind of policy. To add to everyone's points, we have already mentioned lowering the automatic enrolment threshold and we suggest potentially a sidecar pension scheme could support that group.

Q65 **Debbie Abrahams:** Could you tell us a little bit more about that in a couple of sentences? I am not familiar with it in any great detail, and people who may be watching will not know what the sidecar is.

Sophia Dimitriadis: NEST proposed this idea, and it has done some testing of it. You have a threshold over which you say, "I need these



number of savings each month” and that could be decided by the Government or each person. Then when you hit that target, any extra savings rolls over into pension. You could automate contributions, as an employee, into this account but only after the threshold is met, so you always have that rainy-day fund and you can deal with it there.

Q66 Debbie Abrahams: Thank you. Nigel.

Nigel Stanley: The issue here is that the pension system reflects and amplifies other difficulties in society, so we have the gender pension gap because we have the gender pay gap and gender work gap. Most of the issues that we are going to deal with to solve it are going to be wider issues.

One of the things about the gender pay gap and pensions gap that is always interesting is this assumption that, if people are not earning very much at that moment in time—because they are working part-time or something—that will go on for the rest of their lives, so they shouldn’t be saving because they might over save. That is not true for a lot of women. They will have a period of time when they are working part-time, possibly under the earning threshold and, therefore, not building up any pension. Then later when their children are grown up, or whatever, and their life has changed, they may well go back to full-time work. But they will have missed out on a significant chunk of contributions, which of course will be growing and compounding over that time while they are working in their 40s and 50s or whatever.

I think some of the other issues we have talked about, with multiple jobs and lowering the earnings trigger, are a good way of dealing with this. On some of the other issues around ethnicity, if you look at the labour market some ethnic groups have a much higher rate of self-employment, so you deal with the self-employed. Other people have other particular characteristics. There isn’t a set of things that are going to make pensions equal. There are a number of things that make pensions work better and make the labour market work better, and the result of those will be better pensions in retirement.

Q67 Debbie Abrahams: This is a little bit of a thorny issue, but when relationships break down and people divorce, are pensions being used in terms of divorce settlements? How fairly are they being used?

Christopher Brooks: Not very fairly, I think, on the whole. I know Scottish Widows does quite a lot of work looking at this. I have looked at it in the past and all too often pensions are not considered as part of the divorce process, so there are definitely reforms that can be made there to make it fairer. I talked about having some kind of nudge system in the divorce system, so that you are pushed towards including and dividing the pensions, but I think there is quite often the perception that the house is the main asset, and the pension gets forgotten about. At the moment, yes, it is a big problem for lots of women.



Q68 **Debbie Abrahams:** That Scottish Widows paper that you mentioned, has it been able to estimate the contribution of pensions in terms of the gender pension gap?

Christopher Brooks: I don't think it looked at that specifically. It looked at how many pensions are shared and that kind of thing, and it is fairly low numbers. Even though it is supposed to be part of the process, it is worryingly infrequent. There has been quite a lot of work going on by the legal profession as well to try to bolster sharing of pensions. Just very quickly, the other issue that I should just mention—

Chair: Very quickly, if you would.

Christopher Brooks: I will be very brief. The other issue is the net pay anomaly, where the Government have proposed a solution for it but it seems to be inadequate. It is all about proactively claiming your money back, whereas there needs to be some kind of automated solution.

Chair: Thank you very much indeed for your very full and thoughtful answers to our questions. If there is anything that occurs to you afterwards that you would like to draw our attention to, please do send us an e-mail. We would be very eager to hear from you. Thank you very much for being willing to join us this morning.

Examination of witnesses

Witnesses: Laurie Edmans, Leah Evans, Steven Taylor and Martin Willis.

Q69 **Chair:** We have three members of the panel with us in the Committee room—thank you to all of you—and a fourth panellist is joining us virtually. Thank you and welcome to you as well. Can I start as we did with the last panel and ask you each to say a sentence to tell us who you are, starting with Laurie Edmans?

Laurie Edmans: Good morning, everybody. I am Laurie Edmans. I am here representing the Financial Inclusion Commission. I should mention I am also a non-executive director of NOW: Pensions, which is one of the new master trusts set up to deal with automatic enrolment people.

Historically—I have been around forever—I launched the Pensions Dashboard or something very like it, with the chairman, in about 2004 in Brussels. It has been said that it was a bit slow, and I think we would agree with that. I was then chairing the ABI pensions committee, and I have been lucky enough to be a founder director of NEST, of the Money Advice Service and of the Pensions Regulator, and I chaired the Mirror Group Newspapers DC scheme for eight years and the Zurich independent governance committee.



HOUSE OF COMMONS

I am retiring in three months' time—this is my last run out, so excuse me waxing on a bit—when I will concentrate on my role as co-chair of the initiative called GAIN, which is the Group for Autism, Insurance, Investment and Neurodiversity, which is seeking to improve radically the employment prospects of neurodiverse people in the industry that I have been so lucky to have been in for all this time. Sorry to take so long.

Chair: That was quite a long sentence, but deservedly so. Thank you very much.

Laurie Edmans: It felt like a long sentence, at times.

Steven Taylor: Good morning. I am Steven Taylor. I am secretary of the Association of Consulting Actuaries, where I also lead their Savings Adequacy Group. I am also an actuary at consultants Lane, Clark & Peacock.

Martin Willis: Good morning, everybody. I am chair of the Society of Pension Professionals DC Committee, representing providers and consultants in the pensions area. I am also a partner at the consultancy firm Barnett Waddingham.

Leah Evans: Good morning, everyone. I am Leah Evans. I am the chair of the Pensions Board of the Institute and Faculty of Actuaries, and I am also an associate partner at EY, where I advise companies on their occupational pension schemes.

Q70 **Chair:** Thank you all. Let me put the first question to you, which is a question that I put to the first panel as well. We have heard contrasting views in our inquiry about whether a new pensions commission is needed, 16 years after the last one. Can you tell us what your view is about that and, whatever that might be, what you think the key pension policy issues are to be addressed, one way or another, at the moment? Laurie, we will start with you.

Laurie Edmans: In short, I think if there is one thing that came out of this inquiry that would be really positive it would be for there to be another review as detailed and as forensic as the Pensions Commission. I believe that there is a change. I don't believe that inertia is enough any more. I think that the overall picture shows serious disparities between the pensions expectations of many people, which have not received sufficient attention. Those disparities are aligned with the nature of people's employment.

There is a paradox. Expectations seem to be rising as the overall level of pensions provision falls. Many people think they are set for a secure financial life after retirement—broadly what people of my generation have had—when in fact they are not. People are expecting the same outcomes from very different inputs, and employers in the private sector have been backing away from pension commitment at a rate of knots. I don't think that shows any sign of changing.



HOUSE OF COMMONS

All the while, employees would rather have a taxed £1 of income in their take home pay rather than £2 or even £3-worth of value in their pension pots. Employers being economically rational, when we know that human beings generally aren't, will only make what pension provision is necessary for them to make to enable them to recruit and retain the workforce they need. It is well documented that inertia means that that is a low bar.

Many measures to improve employee engagement have been attempted and many more are postulated. We don't think they are going to succeed, at least not fast enough to prevent many people sleepwalking into standards of living in retirement much lower than they expect, without a major campaign to turn the lightbulb on. Measures are needed that will make people understand where they are and what they can do about it. Inertia is no longer enough.

We also believe that a clear and worrying divide is likely to open up between the net income in retirement of people who rent compared with people who are mortgage free. We don't think there is any real consensus on the nature of the problem. The great thing about the Pensions Commission—and I was lucky enough to lead for the insurance industry in its work—was not just what it came up with, but the way that it did it.

It divided the task into two. The first piece of work looked at creating a complete consensus, which it achieved, on what the nature of the problem was. It did not at that point delve into: these are the solutions. It got everybody to agree, across all the different interests, that its analysis was correct. It only then moved on to proposals that could then be discussed in the context of the proposals, not an odd mixture of criticism of the proposals because they did not like the proposals or criticism because they did not agree with the data.

That two-stage approach was vital. It was also enormously thorough. I was trained as a work study consultant. I provided the input to the report that analysed the costs of getting employers in a voluntary sector to engage with pensions, which Adair Turner used in his report to show that a voluntary system wasn't viable.

You will find if you look at the first report that Aegon—I was working for Otto Thoresen then—is the only insurance company cited. The thoroughness with which that work was done—Adair Turner sat outside my office for three days going through that work study analysis, line by line, before he believed it. That is the kind of forensic work that is needed now. If you want to get somewhere, you really have to understand where you are in the first place. I don't think it is necessary for there to be a continuing commission, necessarily, but the work really does need redoing.

Steven Taylor: I would agree with quite a lot of those comments. I think there is a danger of people, particularly the younger generations, sleepwalking into a retirement that is less comfortable than those of their



HOUSE OF COMMONS

parents' generation and, frankly, less comfortable than they are probably expecting at the moment. In part, a lot of that is because of the success of the nudge economics that arose from the first Pensions Commission.

We have a state pension that I think is relatively well understood and extremely well valued. Mass coverage of auto enrolment schemes has been a big success, but I don't think we have seen that third element from the Pensions Commission: those voluntary savings. I think the original expectation was that there would be a similar level, maybe another 8% of savings, coming from other sources. For example, ACA research shows that there are about 10% average contributions going into DC pots. That suggests there are hundreds of thousands, if not millions, of people paying at those very low rates. Going forward, I think the key challenge is to find ways to increase those savings levels.

There are a range of views as to how to do that. I know we have talked a little bit about what we could do in terms of compulsion. Should we increase enrolment rates to 10%, 12% and beyond? I have some sympathy particularly for the 10% rate very soon. In terms of getting to those higher rates, 12% and beyond, I believe that if we are going to encourage people to save more, certainly on a voluntary basis, we need to increase the flexibility that is available in the system.

As we go forward, I think the key part to this is to try to find ways of meeting the challenge of that third element: the voluntary savings. We can address that by compulsion if we want to, but I think we can see the success of things like—we talked a bit about sidecar savings. We could also talk about Lifetime ISA: people want to save for property. I think the way to really square the circle is to find ways for people to save in a joined-up way in one place so that, yes, they can save for their property; yes, they can save for a rainy day. Those would be resilient savings; in the light of the pandemic, that is a very big thing, especially for young people these days. To save in one place, build up that savings habit and make sure that, going forward, they have those high levels of savings going in—I think that is the key challenge.

Martin Willis: I think the first thing here is perhaps to say that as well as pensions, this should be about later life saving. This has been touched on a few times, but people might have different wealth, which all comes into the equation. It could be not just a state pension, but property, or sidecar-type savings. Potentially, it is wider than just pensions; it is later life saving.

Yes, I think auto enrolment has been great. As we heard this morning, it has certainly got more people participating, but perhaps the amount of savings has almost gone down. Therefore, it is more people saving but perhaps some people are saving less. I won't go into loads of additional statistics, but I think it is fair to say that we know that adequacy outcomes are not perhaps where we would want them to be and perhaps at least half may be—and we have seen figures saying 62% of those



HOUSE OF COMMONS

people saving are at the auto enrolment defaults, so not particularly high levels.

Where a commission could be useful is in bringing together all the elements at play here. There is lots of work being done at the moment in terms of all the elements that drive good retirement savings. I have broadly got those in my head as things like contribution rates but also investments. There is lots of talk at the moment, not just about generating good outcomes but the effect of things such as investing in illiquids and environmental and social governance elements, which are all important.

You also have things like decumulation and guidance at retirement. Those are very important as well. Perhaps people don't have the largest pots available. Maybe they could have saved more but then they get to retirement and—this was touched on earlier—with Pension Wise or people not using it, perhaps they don't make the optimum decisions as well, so you have a bit of a double whammy. The actual fund isn't perhaps what is ideal, but then people don't make the ideal decisions.

Coupled with all of that, you have this issue whereby in the past you knew when and how people were likely to retire: maybe 65, maybe with a predominantly fixed guaranteed income for life or inflation linked, whatever it may be. Now people can retire at a wide variety of ages in a wide variety of manners, and perhaps there is more innovation to come into the market. Therefore, where a commission perhaps could come into play is just bringing together all this good work that is being done. There are so many consultations at play, but are they all being lined up? Are they all being interlinked and is there enough push towards innovation in some of these areas as well? I think that is the starting point of it.

Leah Evans: I think the Turner Commission was a great example of policymakers coming together from all spheres to deliver fundamental reform that was needed at the time. It has led to very positive outcomes, and I think everyone today has said that auto enrolment has been a big success. Clearly, it is not necessarily finished but it has made a good start.

Where the commission worked very well was that it took a long-term view, and that is very much our approach. It is really important for any pension policy decision because any changes that we make now will take a significant amount of time before we see material impacts on people, so it is important that those decisions are thought through and then followed through.

Many of the underlying principles behind the solutions put forward by the original commission do still hold true, particularly because of this cross-party approach. There have clearly been significant changes since then. There have been direct changes to pensions, including the reforms that the commission delivered, such as auto enrolment and also the introduction of the freedom of choice agenda, and then there have been



external factors that may change things, such as advancement in technology, changes in the population, changes in working patterns, such as the gig economy that we talked about in the earlier panel, economic volatility and of course Covid-19.

One trend that we have observed at the IFOA, which we have done quite a lot of work on, is what we call the great risk transfer. What we have seen over the last few decades is this big trend of a transfer of risks away from institutions, such as employers, the state, financial services input and providers to individuals, but individuals are not always best placed to manage this risk. What we have done in our work on the great risk transfer is looking at a number of recommendations, many of which tie in with the Committee's work.

Some of those are around product solutions, for example, establishment of CDC schemes. One thing that we think is very important is the development of default decumulation pathways, and then really, really important—and I know this has been discussed quite a lot today already—is around education and awareness of what people need to save and helping them achieve that. It is around, say, increasing the uptake of Pension Wise appointments and looking at what target saving rates should be.

It feels like a lot of this work is already under way or being looked at. We are certainly doing a lot of that, and I know you are doing a lot of this, and a lot of it could probably be progressed without a new commission. If there is a new commission, it needs to be ambitious. Somebody on the earlier panel said the Turner Commission was successful because it was ambitious, and it should certainly go beyond what has already been worked on in these examples I gave. If there is a new commission it should very much consider the pensions issue through this lens of the great risk transfer and what support needs to be provided to individuals, but also it should look beyond pensions as a standalone issue and consider issues such as later life care costs, use of housing and non-pension savings, just to name a few. These are complex issues, so again, it is very important for any commission to take a long-term view and a cross-party approach.

Chair: Thank you. We will need to speed up a bit. We are getting a bit behind. Shaun Bailey.

- Q71 **Shaun Bailey:** Two questions from me for the panel. First, obviously we know that we have 3 million people aged between 50 and state pension age who aren't saving enough but, in terms of the generational impact, the whole panel talked about the issue of savers and cross-generational effects. Is it fair to say that it is becoming increasingly likely that the issues that we are talking about aren't generational-specific? It sounds like this is broader than that. From a policy perspective, would you say that if anything, that makes it more important for policymakers to be taking a broader approach in terms of how they handle these issues?



HOUSE OF COMMONS

Leah, do you want to start with that first and then we will go across the panel?

Leah Evans: Yes, of course. There is a generational issue to it, I guess, in that people who are coming to retirement age will now have a greater share of their pension savings in things like auto enrolment. I think their understanding of what level of retirement is needed is very important. We have done some work on that as part of our "Savings Goals for Retirement" analysis, which shows that broadly people saving at the minimum auto enrolment level are on track to achieve a minimum retirement living standard, as set out by the PLSA. That is comforting to some extent, but many people are probably not aware of that and might be hoping for something more.

Our analysis shows that someone who would be looking to achieve a moderate retirement living standard, which might be the difference between having a car or not, or going on holiday abroad once a year, would need to save around a quarter of their income to meet that, which is significantly higher. Someone who wants a really comfortable retirement needs to save sort of double that. I think there is a generational issue there because as those people move through the cohort towards retirement, more and more people will be relying on the minimum savings level. Again, the focus should be on raising that awareness and helping people understand what they need.

Shaun Bailey: That is very useful. Laurie.

Laurie Edmans: I agree with the generational point, but it is not just about generation, as you suggest. Looking at the numbers, there are 6 million people in the working population who have no provision at all, including the self-employed. There are 7 million who only have the minimum automatic enrolment. There are about 7 million who are in larger employers. The old traditional ones have largely converted from DB, with total core contributions of 10% or 11% of earnings, some with employer higher matches.

A point I would like to make is that there are no data of which I am aware on the extent to which those higher employer matches, which are very much taken pride in, are taken up. I don't know. I know what they were at *The Mirror*. Only half of the people who could take up a higher employer match took it up. That is very much in line with what used to happen before automatic enrolment with people who were called non-joiners. I suspect that is the case, but employers tend to take the credit for their higher levels of employer match but, by and large, I don't know. That is why we need the commission to look at it.

There are 7.5 million people, overwhelmingly in the public sector, who still have DB provision, equivalent to contributions of about 25% of pay. There were four very clear sets of levels of expectation. The real issue highlighted by the Institute of Fiscal Studies is that they all think they are going to come out pretty well the same way at the end, and that is why



HOUSE OF COMMONS

something needs to be done about that. In fact, the IFS reported that between 2008 and 2020, the number of people who were confident that their income in retirement will give them the standard of living they hope for increased by 11%, when in fact the provision was going the other way.

Steven Taylor: I guess for the age group between 50 and 65, you could split them into two different groups. There are those who have benefited from defined benefit schemes. Within that band, there is quite a significant proportion who will have quite a good retirement because they have long careers in defined benefit schemes. You are absolutely right, within that group there are also a lot of people who have spent their entire careers in defined contribution schemes.

These are the first group of people who are getting to retirement, having been exclusively in defined contribution schemes, and even worse, they have not benefited from the upside of auto enrolment, which did probably increase contributions along the way. That group specifically, above age 50 and having not been in DB schemes, will have potentially quite a challenging transition into retirement. There is a good rationale for a specific policy focus on that group.

For the next generation, we have people aged under 50, and specifically I would tend to focus on the very young. The challenge is to make sure that, yes, they are benefiting from auto enrolment, but that they are not just going to have the same problem when they get to age 50, so I think we do need to focus on that group at least as much.

Shaun Bailey: Definitely.

Martin Willis: The short answer is, yes, it definitely affects people across those generations in different ways perhaps. Certainly, there is a huge amount of complexity when it comes to how to start drawing income for those people closest to retirement, where those people starting off on their savings journey, their questions are very different. It is potentially a mistake to think that a certain demographic doesn't save. I have seen a lot of evidence to suggest that generation Z quite likes saving and is quite frugal, but perhaps is saving outside of pensions, maybe things like online savings platforms, maybe cryptocurrency or non-fungible tokens or whatever it might be, but there is that sort of stuff to consider.

In terms of opt-outs, it is not necessarily just those people who haven't hit the appropriate auto enrolment age. It can be people across all age bands, albeit that those with lower affluence are definitely more likely to opt out. That is where you talk about the triggers and things like that. I am acutely conscious that those people who aren't automatically enrolled are missing out on certainly an employer contribution of now 3%—it could be 6%—so where is that money that is going to that person?

Matching contributions is absolutely a fair point. In my experience, the matching contributions—or not even matching, but potentially higher



contributions—tend to be selected by those people with the most disposable income, for fairly obvious reasons, or people with the most financial education. It is kind of steered towards those people who need it less, potentially, in a matching contribution structure. Of course, we have the gaps, which were rightly highlighted earlier: gender, definitely, but also linked to things like disability and social ethnicity. All of those things are part of the equation as well.

Q72 Nigel Mills: We just need the Government to make a decision on contribution rates and decide when we will hit 12% and what the split is and get on with it. Do we need to have a commission to tell us what we already know and all agree on? Isn't it decision time rather than advice time?

Steven Taylor: The short answer is yes. Certainly, on the jump to 10%—and I have heard a proposal around going to 5% and 5%, which sounds very sensible—if you look at the work the IFS has done, which I think the previous panel spoke about, the evidence is that people just don't opt out, so yes, you can achieve the objectives by just ramping up the contribution rates. The question is: is that the desirable thing to do across society? If we want to get to 12%, to 14%, to 16%, at what point do people start opting out? We cannot take that for granted. At what point does that start to have negative consequences?

We know people do want to save for other things: they want to save for house deposits; they want that resilience fund. There is the cost of living crisis effectively happening around us, so people will start to not be able to deal with that. Yes, there is a practical question: let's get to 10%, let's get to 12%, 10% within this Parliament and 12% within the next. We have said that before. Whether the high inflation environment makes that a little bit harder, I don't know, but as we go higher, I think we need to find ways to say, "Okay, if you are going to spend this much more money on pensions, can that be used for other reasons if you need to?" I think that is where the debate should go.

Laurie Edmans: That is a pension silo view. It isn't a view that employers share; it isn't a view that employees share. There are not any signs of which I am aware of that people are looking to see more of their income deferred for 10 years to an uncertain future. Until such time as they value £1 going into a pension as much as they value £1 going in their pay packets, employers aren't going to be enthusiastic about making that change, nor are employers going to be very keen on seeing their costs increased.

In the CBI survey of employers, the majority of employers said yes, they think the automatic enrolment contributions ought to go up, but not for five years. The view of employers on pension provision can be seen from surveys like the recent Willis Towers Watson large employers survey. More than 80% of FTSE 350 employers automatically enrol new joiners into their schemes at the lowest possible contribution rate and only 3% at the higher contribution rate. For small employers, in a recent magazine



HOUSE OF COMMONS

article from the Federation of Small Businesses, there were four pages concerning how best to attract and retain employees. There was not a single mention of pensions in that.

If contributions are going to be ramped up, particularly employer contributions, it has to be done with the willingness of employers to do it. The Government are going to find it quite difficult in the current environment to get employers to take on an increase in their costs, especially if the employees don't see the value of it. It is not as easy as ramping it up.

Q73 Nigel Mills: Isn't this a circle of doom, though? We know engagement is not going to work, because we have just had to put 10 million people in without telling them. If we cannot do engagement and we cannot do compulsion—

Laurie Edmans: I am afraid I do not agree that you cannot do engagement. I think that a proper effort at engagement has never been made. The ABI, together with Saatchi & Saatchi and a couple of the other big advertising businesses, were given the task in 1996, following a study by Bain, of seeing what would be necessary to get people's attitudes to change as fundamentally as they have, for example, towards smoking or towards eating sensibly. They said back in 1996 that the cost of carrying out that transition would be something like £25 million a year for three to five years. The industry got so far with the programme and then choked.

I have recently asked a major international media planning business, where I know the people well, what they think that would entail now if such a campaign was to take place. They said they thought it would cost between £40 million and £60 million over a three to five-year period. That is equivalent to half a basis point on the funds under management in the industry for three to five years. If we were fast-moving consumer goods, we wouldn't be thinking about not doing it.

Q74 Nigel Mills: Aren't you basically saying then that the Turner Commission got it fundamentally wrong, and rather than opting for the inertia that we have all implemented and we all agree was the right thing, it should just have recommended a big advertising campaign?

Laurie Edmans: I am saying that I think the situation has changed from when the Turner Commission was in place. There was a lot more DB around in those days, but the reason I have said the one thing I would like to see come out is a fresh commission is because I don't know, to be honest, and we ought to find out.

Steven Taylor: I don't think it is necessarily a foregone conclusion that employers would not support higher contribution rates and more flexibility. ACA survey employers every year, and in the last one 75% of employers said that they thought more flexible products would encourage more saving, and two-thirds of employers said they would be more than happy to contribute into a generically described vehicle.



HOUSE OF COMMONS

When I talk to employers, day to day, they just want to provide pensions and savings products that their employees value, particularly when employers are fighting over staff, competing for staff. If they can provide a package, whether it is flexible saving, sidecar saving, lifetime ISAs, more traditional pensions or frankly just cash when they are in a very competitive scenario, they are just trying to provide savings and pensions that people value.

Q75 Nigel Mills: Should we encourage or require job adverts and job contracts, rather than quoting a salary, to include the pension contribution from the employer, so rather than saying 24 grand plus 5%, it should say 25 or 26 grand including pension contributions?

Steven Taylor: I guess employers do compete on this stuff anyway; they talk about overall packages. To your point about it being a circular argument, it does become circular, because at the moment employees are crying out for information and they will get it. Communication strategies and guidance, does that feed in? Probably it does.

Martin Willis: I will try to keep it very brief. There are a couple of challenges here. I think the industry definitely believes the increases should come in. Certainly, we have at least three quarters of the industry thinking it is a good idea. Clearly it is an issue with employers and employees because there is a finite amount of money out there, especially at the moment. If an employer has to pay more, debatably that is money that could be given to inflationary-linked pay rises, for example, so there will be a squeeze. I think then it is a case of focusing in: what are the other levers that can be used? I am not saying there shouldn't be an increase by 2030 and it probably should be on a gradual basis, but for a start it is who needs the support the most.

You have maybe three cohorts. There are some people who don't need to save more into pensions. There are some people affected by the lifetime allowance and the annual allowance. You then have a big group in the middle who possibly could, but could be encouraged to save more. That is when you get into all the interesting mechanisms such as Save More Tomorrow engaging and so on. Then you get those people who simply cannot afford this. Those people may be supported by the removal of earnings bands and triggers. I think that is a part of it.

This definitely comes back to savings gaps as well. Clearly at some point maybe tax relief has to come into question. It may well be that you could give tax relief to supplement the savings of those people who need it most because I think there will be a cohort that will be most affected by this lack of adequacy.

Q76 Nigel Mills: Leah, did you want to add anything?

Leah Evans: In my view, you need some compulsion or default because there will always be a large number of people who won't take proactive action and they will have other priorities. Some level of automatic



HOUSE OF COMMONS

enrolment is important and looking at increasing that rate is important. It doesn't necessarily in itself need a commission.

I do agree that raising awareness, having an advertising campaign, is also important because people need to understand why we are doing this. That should target both members and employers because employers are a big part of this.

Q77 Chris Stephens: Laurie, a couple of questions for you. You have answered the first one to my colleague. Your organisation has developed savings goals to help people understand what they need to save to achieve their retirement income targets. Is there evidence that these are more effective at increasing saving?

Laurie Edmans: My organisation hasn't, but the PLSA has. We absolutely support it and we believe there is clear evidence that if you can communicate them correctly to people—when I say “correctly”, I mean they open the envelope and read this stuff, not whether the information is accurate, because one of the biggest problems you have with the stuff in my industry is that the envelopes arrive and they go straight in the bottom drawer or the wastepaper bin—and if you can get that information to people, then things change.

The specific I would cite is the results of the “Guided Outcomes” work, which is carried out by Hymans Robertson. When I was chairing the Mirror Group Newspapers, I wanted to implement the “Guided Outcomes” work because the research—I have just recently checked this with Hymans—showed that if people had a clear picture of what their standard of living in retirement was likely to be, 37% of the people increased their contributions and they increased them by between 4% and 5%. That is a very significant shift.

The problem I had at *The Mirror* was that it is a traditional print business in a digital age and its bottom line is not as secure as it would like it to be. When I proposed to the finance director of *The Mirror* that we implemented the “Guided Outcomes” work, he said, “Laurie, how many people would you like me to make redundant if you get higher levels of employer matches that hit our profit and loss account?” Pensions don't exist in a silo, but I believe those kind of measures will be extremely effective and that there is evidence to show it.

Q78 Chris Stephens: If someone was on track for what you call a minimum retirement living standard, how would their combined income of that plus the state pension compare with developed world pension standards?

Laurie Edmans: Oh, goodness me. That goes to the question about the level of state pension in the UK compared with overseas.

Chris Stephens: Yes, it does.

Laurie Edmans: It is probably not as well known as it should be that the UK has one of the lowest replacement rates for state pensions, certainly



in the developed world, and it does not even compare well across the OECD. In fact, going back to the Pensions Commission, you could argue that at the levels quoted, all that the advent of automatic enrolment did was to bridge the gap between the basic state pension provision and the amount needed to keep people out of means-tested benefits.

Q79 Chris Stephens: Last question, Laurie. What are the simple rules of thumb that people should apply in setting their savings goals?

Laurie Edmans: I think the figure for a moderate income in retirement that the PLSA has worked out is circa 15% of pay as contributions, and 10% or 11% gets not quite half of people in work to the moderate living standards in the PLSA analysis. It is a worry.

Leah Evans: Can I come in on that? We have done some analysis as well, which showed that auto enrolment, a full level of contribution plus full state pension is broadly in line with the minimum; that you would need to save around 26% of salary as you get to a kind of more moderate level; and more than double that to get more comfortable, which might be more holidays, newer cars and so on. There is a very big range, and I think that difference between the current auto enrolment contribution rates and what you might need to target a level of retirement income that people want is very significant. That is something that needs to be communicated.

As part of that analysis, we have also come up with different rules of thumb—say, £1 of pension savings might get you £1.4 of retirement income, and that sort of thing. I think it is those very simple messages that we need to try to get across to individuals. Those rules of thumb could be communicated through something like Pension Wise guidance or an advertising campaign, as Laurie said, but it needs to be simple and it needs to be something that people can understand.

Q80 Sir Desmond Swayne: Is there a more effective format and delivery route for the mid-life MOT? Is there something that you would like to see tried out?

Martin Willis: I think there is a three-pronged approach on this. You have the wider structure that can be perhaps delivered nationally, like mid-life MOTs, but also there is a part for schemes and employers to play in this as well. One of the things about consolidation that has been quite successful—and will hopefully continue to be—and perhaps in different countries this is also reflected, is that if you bring schemes together at scale, there is more support to be able to provide engagement tools. It could be allowing people to interact with their situations personally through online modellers; it could be working out what the precise key messages are to deliver to a certain demographic. As you get that economy of scale, hopefully people can then engage with that newer modern way of dealing with things.



A lot of the saving is through the workplace, and I think there is an onus on employers not to necessarily come up with all these tools, but to work with all these schemes. The bars have been raised with these schemes because of things like the master trust authorisation framework and governance for trust-based schemes to work out what is right for their workforce. If you are all sat at desks with PCs, use online modellers. If you are in vehicles, then perhaps there could be a QR code on the windscreen that can be scanned in with a mobile phone. These things exist, so I think there is an onus on employers to work with scheme providers in order to come up with the right thing.

Q81 Sir Desmond Swayne: On that, we have recommended that employers use some of the tools that MAPS has produced more effectively. How do you see that working, and what should be included and what shouldn't?

Martin Willis: I would agree. I would like to see a degree of governance in each employer structure, recognising that not all employers are huge, but there should be someone, and maybe it is the employer that can be prompted by a form of campaign to say, "These tools exist. How would you best roll them out to your workforce?" recognising there are different fits for different groups, but there are tools. Yes, I think that would be a great thing to do.

Laurie Edmans: I am a member of the mid-life MOT board that the Pensions Minister has set up, so therefore I am completely convinced that it is the right thing to do. I am rather worried that it will not be given the weight to make a difference. The example that was cited earlier of Pension Wise changes really not being very likely to make a difference could apply there as well. Overall, the ambition to enable people to have a holistic review of where they are, encompassing both their health considerations and their work considerations alongside their financial ones, including pensions, is exactly the right idea because too many discussions go on as if pensions exist in a little universe of their own, whereas in fact they are only a part of somebody's whole life. It is early days for the mid-life MOT, but I think it is exactly the right sort of idea.

Q82 Sir Desmond Swayne: We have recommended that the Money and Pensions Service use the data that will become available from the—what did we call the thing?—dashboard and develop a guidance service using that. Will that work?

Laurie Edmans: I think it will if it is given enough resource to do it. In my period of five years on the board of the Money Advice Service, which was without question the most painful thing of all the various things I have done in my life, it was cut to blazes by the reluctance of the industry to fund properly the kind of activity that you have described. I believe that is one of the reasons why the Stronger Nudge proposals are milk and water rather than really likely to make a difference. I think it could do the job, but it needs resource to do it. If you get millions more people going there and looking for things, somebody has to do it,



HOUSE OF COMMONS

somebody has to put their hand in their pocket. That is only going to come from the industry.

As the person who used to run the industry forum for the Money Advice Service, who saw the budget for promoting the Money Advice Service slashed to blazes after two years, I think it would need a significant change of view on the part of the industry as to the commercial benefit of getting people more engaged—which I, as a former marketing director, thought was obvious—before that kind of support is likely to be forthcoming.

Steven Taylor: I agree. It is absolutely essential that the dashboard is just brought into the mainstream way that people monitor what pension savings they have and as a route to the guidance that they might need so that they can regularly take stock and not just at 10-yearly intervals. I think that has to happen. That has to be one of the key upsides of the dashboard going forward. It is crazy that you can check your bank account on your phone, but it is very hard to find out where your pension schemes are. If you can just do that in an app, it has to be a massive win.

However, that is only part of the story, because I think the inertia is there. We know that the nudge from auto enrolment worked. Frankly, there are some people that IFS identified potentially should opt out who haven't. The nudge was just so successful that I think that has to be a key part of it as well.

Q83 **Siobhan Baillie:** I think we have already dealt with my question on how we can effectively increase take-up, because you were just talking about that guidance.

Thinking very quickly on data gathering, the Committee has heard evidence that there is a real issue about collection of data, particularly with small pots providers, on how things are working. Do you think that should be a priority of the Department and do you have any other points about data gathering and what we should be doing?

Martin Willis: Data are incredibly important. A lot of the stuff that we have talked about today has been very interesting, but if you don't have the data, you cannot make the right decisions. We have talked about that in terms of contribution rates. That definitely exists with gaps, for example, so perhaps gender is recorded more than other types of gaps so it is a bit easier to identify it. It is interesting; I have spoken to employers who have started switching their recruitment processes so they start to obtain more elements of data as they onboard people, which is then helping them run the pension schemes and identify the right groups to be addressed.

It is difficult. As someone who has worked with all of this, I know that GDPR and things like that make people almost reluctant to touch data, so that is a side set of this. But no, without data it doesn't work, and if we



had the right data, it would make all this work a lot better because so much of it is dependent on data.

Leah Evans: Just to come in on that, data are fundamentally important. You cannot make it work without data. The other thing that should be a priority for the Committee though is how the data are presented and particularly how information about pots and how much money in the pot is translated and what might that mean for a retirement income. That comes back to what assumption you make about a pot being converted to income in the future, perhaps some rules of thumb—simple messaging so that people see the data, but can take action on it.

Steven Taylor: I would completely agree with that point. I know the industry is doing huge amounts of work on the dashboard at the moment to try to make sure that the data that is presented is comparing apples with apples for particular people who have more than one scheme and how you present defined benefit schemes and defined contribution schemes, and what if they have different benefit structures? There is just so much detail surrounding what sounds like it should—

Q84 **Siobhan Baillie:** Not an actuarial spreadsheet?

Steven Taylor: Exactly. Indeed, it needs to be actionable, but it also needs to be something that holds water if someone writes to the trustees about the data that are presented for the scheme. That is a massively vital piece of work the industry is doing at the moment and I think a clear priority for the next period.

Laurie Edmans: Yes, I agree.

Q85 **Chair:** Laurie, I have a point to you, finally. You have been very vociferous about the small pension pots issue. A witness in the earlier panel said that after initial progress, nothing much seemed to be happening on that. Is that right? What do you think needs to be happening on that front at the moment?

Laurie Edmans: There are things happening, Chairman. I was a member of the small pots working party, which wouldn't have existed without this Committee pushing for it, so all credit to you for having instigated that. There is work that is ongoing. I get monthly reports on progress. It is a bit in the weeds at the moment though, to be honest. There are two or three possible ways of smoothing the amalgamation of small pots.

A particular snag that seems to have arisen at the moment is that it seems to be difficult to find a way for that to be very effective without requiring primary legislation, when there isn't much room in the parliamentary agenda—you will know more than I do—for such legislation, but it really is important for the work to carry on. It is being carried on, but the pace has slowed down a bit.

Chair: Can I thank you all very much indeed for joining us this morning? You have given us lots to think about. Let me just make the point that I



HOUSE OF COMMONS

made to the earlier panel: if something occurs to you afterwards that you would like to tell us about, please do e-mail and we would be very pleased to hear from you. Thank you all for joining us. Thank you, Laurie. From what you have said, this may well be your final appearance before the Committee. We are grateful to you this morning and for all the previous appearances as well. That concludes our meeting.