House of Commons

Work and Pensions Committee

Protecting pension savers—five years on from the pension freedoms: Saving for later life: Government, Financial Conduct Authority and Money and Pensions Service Responses to the Committee's Third Report of Session 2022–23

Fourth Special Report of Session 2022–23

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Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the publications page of the Committee's website and in print by Order of the House.

Committee staff

The current staff of the Committee are Henry Ayi-Hyde (Committee Operations Officer), Sarah Dixon (Committee Specialist), Oliver Florence (Senior Media and Communications Officer), Ed Hamill (Committee Operations Manager), Zoe Hays (Committee Specialist), Danielle Nash (Clerk), Djuna Thurley (Senior Committee Specialist), and Jonathan Whiffing (Second Clerk).

Contacts

All correspondence should be addressed to the Clerk of the Work and Pensions Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8976; the Committee's email address is workpencom@parliament.uk

You can follow the Committee on Twitter using @CommonsWorkPen.

Fourth Special Report

The Work and Pensions Committee published its Third Report of Session 2022–23, Protecting pension savers – five years on from the pension freedoms: Saving for later life (HC 126) on 27 July 2022. The Government's Response was received on 11 January 2023. The Committee also received responses from the Financial Conduct Authority on 30 November 2022 and the Money and Pensions Service on 4 November 2022. The responses are appended below.

Appendix 1: Government Response

The Work and Pensions Select Committee report 'Protecting pension savers- 5 years on from the pensions freedoms: Saving for later life'

The government notes the Committee's report of 30 September 2022.

The focus of the Committee in this inquiry was to investigate whether households had adequate savings for retirement and what the government can do to improve outcomes for savers.

This inquiry examined the following areas:

- Whether households in the UK have enough pension savings for retirement;
- What advice and guidance people need when saving for retirement;
- Support for the self-employed and 'gig economy' workers;
- Measures to close the gender pensions gap.

OVERVIEW

The Government is committed to enabling people to have greater security in later life through a combination of State Pension provision, ensuring that more workers are able to save more into a workplace pension and by enabling individual's access to the information, guidance and tools that will allow them to more easily take responsibility and plan for the retirement that they want.

Automatic enrolment (AE) has transformed participation in workplace pension saving, with the participation rate of eligible employees in the private sector increasing from 42% in 2012 to 86% in 2021. AE demonstrates the power of both a high-quality evidence approach to policy making and the importance of maintaining a broad consensus over time to deliver a paradigm shift in the way that people save. In developing the policy to implement the 2017 Review proposals, we will retain the key underlying principle – that AE remains focused on supporting low/median income earners for whom it pays to save.

The government is committed to incorporate the recommendations set out in the 2017 AE Review. DWP will work closely across government and with the regulators, pensions industry and employers as we develop our future approach to implementation. We recognise the existing challenges presented by the gender pensions gap and DWP continues to work, together with stakeholders across government, to develop an appropriate definition of the gender pensions gap and build an evidence base to inform future policy outcomes.

Alongside the continuing evolution of AE, DWP will continue to explore how self-employed people can be encouraged and enabled to save for retirement. Policies such as Pensions Dashboards, the Stronger Nudge and Simpler Annual Pension Benefit Statements will ensure that individuals have access to the information and guidance that enable them to better understand and engage with their pension and retirement planning, recognising that retirement aspirations are highly individual and that there is no one size fits all solution. DWP will continue to work with the pensions industry, advisory community, employers, and other stakeholders, with the aim of creating a nation of better informed and engaged savers which requires a collaborative approach and does not sit with government alone.

SELECT COMMITTEE RECOMMENDATIONS:

In the following section we address each of the recommendations made by the Committee in turn. Some of these recommendations do not fall within the remit of the Department for Work and Pensions. Therefore, this response includes contributions from HM Treasury (HMT), the Department for Business, Energy, and Industrial Strategy (BEIS) and The Pensions Regulator (TPR) which are signposted below.

The Financial Conduct Authority (FCA) and the Money and Pensions Service (MaPS) have provided separate responses to the Committee on the recommendations relevant to them.

GOVERNMENT RESPONSES

Recommendation 1: ***We recommend that by March 2023, DWP, the FCA and MaPS publish the metrics they intend to use for evaluating the stronger nudge. These should cover issues including take-up, the timing and the extent of behaviour change resulting from it. The evaluation should be completed no later than the end of July 2023. In addition, DWP should commission research to look at other initiatives trialled in the meantime, such as automatic appointments.*** (Paragraph 13)

The government is committed to continually monitor the use of Pension Wise which now includes the impact of the Stronger Nudge. We will continue to work with MaPS to consider feedback on users' experience of the service and its impact on their knowledge of the options available to them. The metrics we are using to monitor the use of Pension Wise and the impact of the Stronger Nudge are set out below.

To monitor take-up, we use the volume of appointments attended each quarter from MoneyHelper and compare this to periods prior to Stronger Nudge. In July-Sep 2022 there was 20% year-on-year increase in the number of Pension Wise appointments attended which will include some impact of the Stronger Nudge. We also monitor the FCA Retirement Income data which provides the proportion of DC pots accessed in the contract-based market with financial advice or Pension Wise guidance. We already consider how the market for Pension Wise is evolving and trends in the number of DC pots being accessed each year is changing. While we believe it is right for savers to be nudged towards pension guidance, the decision to receive guidance or not should be a personal one, based on individual circumstances.

We also do not support the trial of a system by which members are automatically booked a Pension Wise appointment. However, we will consider all options for signposting and nudging individuals to appropriate guidance. We are committed to encouraging people to engage with pensions and plan for their retirement, including by using appropriate guidance. In most cases this will be broader guidance, such as that provided by the mid-life MOT. We are currently introducing three new Mid-life MOT initiatives which will deliver this guidance to a range of different target groups. Pension Wise provides guidance specifically about options for accessing savings through pension freedoms. It is therefore appropriate for those who are considering their options for accessing their savings but is not broad enough for most other circumstances. The Stronger Nudge effectively targets members at the point of deciding whether and how to access their savings.

We are committed to gathering evidence and insight and to help support individuals to make decisions appropriate to their circumstances. The Department has recently undertaken the Planning and Preparing for Later Life (PPLL) - a nationally representative survey of 40–75-year-olds in Great Britain - which has provided evidence on how far individuals are able to make well informed decisions about how and when to retire. We published a call for evidence in June to consider the help and support members of trust-based pension schemes should receive when they want to access their pensions savings and we are considering our next steps.

Are people saving enough?

Recommendation 2: ***We recommend that, by March 2023, the Government should set out its plans to build a new consensus on what an adequate income in retirement is and what the pensions system should be designed to achieve.*** (Paragraph 27)

Income in retirement is a very important issue that is a key priority for the government. We are committed to carrying out further analysis to measure the adequacy of retirement incomes for current savers. DWP, and parts of the pensions industry, do use various measures to review and assess actual and projected pensioner incomes. Taken together, these provide a helpful indicator of how the system is operating. We provided our last report of undersaving as measured against the Target Replacement Rates (TRR) in the Automatic Enrolment Review 2017. As promised in our letter to the Chair of 26 August, we will provide an update of our analysis as soon as the data is available.

We consider that a collection of measures, based on different methodology, provides a greater range of insight, than a single measure alone. This is because for individual savers, 'adequacy' is a highly personal judgement - what might seem adequate for some may feel inadequate for others. Establishing a personally acceptable level of provision for retirement involves personal planning, and goes wider than just the pensions system, other forms of wealth will also be relevant.

There are a number of 'adequacy' measures available to savers including the Pension Commission's Target Replacement Rates (TRR), the Joseph Roundtree Foundations Minimum Income Standard (MIS) and the more recent Pensions and Lifetime Saving

Association's Retirement Living Standards (RLS). Others are in development such as The Living Wage Foundation's 'A Living Pension' benchmark. The benchmarks from industry provide useful tools as well as the work of the Pensions Policy Institute (PPI) as they develop a UK Pensions Framework that is assessing the pension system across a number of measures, including adequacy.

The PPI have also recently published projections of future pensioner household income which provides a helpful addition to the evidence base around the outcome of current savings levels. Tools are available to assist savers to plan and identify their own adequacy targets, including providers and advisers support, MoneyHelper calculators and helplines, the mid-Life MOT, as well as the new Simpler Annual Pension Benefit Statements and, when launched, pensions dashboards.

The 2017 review

<u>**Recommendation 3**</u>: ***We recommend the Government introduce the necessary legislation no later than the beginning of the next session of Parliament. It must also publish a timetable for consultation on implementation, taking account of cost pressures on employers and workers.*** (Paragraph 35)

We remain committed to the implementation of the 2017 Review ambitions in the mid-2020s. We aim to bring forward legislation at a suitable opportunity and when parliamentary time allows. We remain committed to carrying out a consultation on the implementation of the review to ensure this works effectively for all parties.

Minimum contribution rates

<u>**Recommendation 4**</u>: ***As a first step, the Government should say whether it considers an increase in minimum contributions possible in the foreseeable future. If not, it should explain how it intends to address the challenge of many people being on course for retirement incomes they will not think adequate.*** (Paragraph 50)

<u>**Recommendation 5**</u>: ***We recommend the Government commit to a trial of auto-escalation schemes, such as Save More Tomorrow (where people commit in advance to paying part of future salary increases into their pension), with a view to understanding how the use of such schemes might be extended to a wider range of savers and employers.*** (Paragraph 54)

As part of its priorities, the government is focused on economic stability and growth, which supports higher wage levels and opportunity for increased retirement saving in future. Recognising the current economic context, however, we have been clear that the next step for Automatic Enrolment is the implementation of the 2017 Review measures in the mid-2020s. Current statutory contributions of 8% on a band of earnings are unlikely to give all individuals the retirement to which they aspire. That is why, we remain committed to implementing the Review measures, as a first step, to improve workplace pension coverage and savings levels. Taken together these measures support our policy goal of enabling low to medium earners to save more for their retirement. This remains our priority before looking at further changes. Alongside this we are continuing to explore how we can prompt savers to engage with their pensions, through tools such as the pensions dashboard and the introduction of the Simpler Annual Benefits Statement, which will help individuals plan appropriately for later life.

Recommendation 6: People in generation X and older without access Defined Benefit pension saving will have had limited time to build up pension savings through auto-enrolment and are therefore at risk of not hitting their retirement adequacy targets. ***We recommend the Government should consult on a plan to address this challenge (adequacy) and report back to us by March 2023.***

We do not believe now is the right time to consult and we have taken steps to address this challenge, including introducing the new state pension, providing further information and guidance to savers and considering how to consolidate small pots to the benefit of savers. Generation X can benefit from the new State Pension, which will continue to provide the foundation for retirement, but the government recognises that there is no single solution to enable older workers to build on this. We believe it is important that people have all the information and guidance they need to be able to better understand and plan for their retirement prospects. We have recently implemented Simpler Annual Benefit Statements (SABS) and are working on other measures such as pensions dashboards and the Mid-Life MoT.

We are committed to demonstrating the benefits of working for longer, to move to a more partial retirement or more flexible working arrangements as a starting point for some savers. As well as information on opportunities for voluntary saving above AE minima, we are continuing to explore how easy it is for people to save above the minimum rates and whether processes are understood by savers and are frictionless. In response to the latest report by the ABI/PLSA working group on deferred small pots, we are considering how to address the challenge that small pots present, so that pots can be consolidated to provide better value for money, and be more easily accessible, for savers.

Recommendation 7: ***Given the importance of the State Pension to the retirement income of many people, we recommend the Government should expressly commit to the continuation of the triple lock*** (Paragraph 59).

The government has announced plans to apply the Triple Lock in 2023/24 and subject to parliamentary approval State Pensions will increase by 10.1%. Under this government, the full yearly amount of the basic State Pension has risen by over £2,300, in cash terms. From April 2023, this will rise to over £3,000. The increase from 2010 to 2022/23 is £720 more than if it had been uprated by prices, and £570 more than if it had been uprated by earnings.

The government also provides additional support to older people, which includes the provision of free bus passes, free prescriptions and Winter Fuel Payments, with Cold Weather Payments for those in receipt of Pension Credit. We remain committed to ensuring that older people can live with the dignity and respect they deserve, and the State Pension is the foundation of state support for older people.

Self-employed

Recommendation 8: ***We recommend that HM Treasury and DWP work together to:***

a) set a date to trial ways to default self-employed people into pension saving and;

(b) consult on the proposal to increase the main rate of National Insurance paid by the self-employed (Class 4) by 3%, with the option to have the increase paid into a pension if the self-employed person also contributes 5% (including tax relief).

Alongside that, the Government should consider how to promote pension saving to self-employed people. (Paragraph 74)

The government is committed to make retirement saving simpler for self-employed people. The learnings from the trialling and research programme delivered through Nest Insight has provided a useful platform to move forward, helping us to build the evidence base and explore further opportunities to enable self-employed people to achieve greater security in retirement.

We have been working with Nest Insight, and a range of partner organisations, on a series of trials looking at the role of behavioural messages and savings mechanisms using financial digital platforms and money management apps to test the role of tech-based nudges and the value of flexible saving. Nest Insight published the findings from these trials on 29 November in their report 'Exploring practical ways to support self-employed people to save for retirement'.[1] These outcomes reinforce the view that a one-size fits all approach is unlikely to be successful. The trials have shown that the use of targeted messaging to different groups of self-employed people - in terms of framing and timing - can have an impact, ie: at times when the self-employed are engaging with finances and messages about tax relief and making 'palatable contributions' were more popular amongst older SE and lower income SE people respectively.

These trials have also shown that flexible autosaving mechanisms have the potential to increase SE people's engagement and saving with pensions. Interest in the novel flexible ways of saving trialled in the first half of 2022 with digital pension and money management platform providers was as high, if not higher than, established saving mechanisms. There was also some, albeit limited, impact on saving behaviours. Using such prompts within flexible saving mechanisms does offer the prospect of increasing self-employed people's engagement with pensions and long-term saving but such mechanisms are new and will need more widespread adoption and use to have a systemic impact. To that end, we advocate further work on how best to incentivise long-term saving for SE people; and on how best to integrate the benefits of such mechanisms into default solutions based around touchpoints that reach most SE people, such as the tax system.

The government has no current plans to introduce automatic deductions into a pension through Making Tax Digital. However, the use of prompts and nudges into platforms used by the self-employed to manage their money, e.g. accountancy software, payment platforms and bank accounts, could have an impact when aligned with the opportunities presented by Making Tax Digital, through working with software providers to explore potential solutions. DWP is working with BASDA - The UK Trade Body for Business Software Developers - to help us better understand the software market and explore the opportunities, current and new, to support self-employed people save for their retirement. This will build on the evidence from the work with HMRC to test the capacity of prompt/

1 https://www.nestinsight.org.uk/themencode-pdf-viewer/?file=https://www.nestinsight.org.uk/wp-content/uploads/2022/11/Exploring-practical-ways-to-support-self-employed-people-to-save-for-retirement.pdf#zoom=page-fit&pagemode=

nudges to pensions guidance installed within the existing self-assessment (SA) system. A prompt 'pop-up' message was delivered to those self-employed people who reported they had not made any pension contributions in the past year. The pop-up had a link to the Money and Pensions Service (MaPS) website information on pensions and retirement saving. It was seen by around 2.1 million self-employed people between October 2021 and March 2022.

Response from HM Treasury

Regarding the committee's recommendation to increase Class 4 NICs, with the increased amount being diverted into a pension scheme, the government keeps all taxes, including NICs, under review. HMRC is not actively considering automatically enrolling the self-employed via the NICs system. HMRC systems are not designed to collect or administer pension contributions; it would present a significant challenge as new ones would be required. This would prove to be difficult at a time where the government is already delivering major projects to modernise the administration of tax and pension savings.

Gig-economy workers

Recommendation 9: ***We repeat the recommendation made in two previous reports that the Government should bring forward an Employment Bill for parliamentary scrutiny as soon as possible to increase the legal protection available to people in low-paid work and the gig economy.***

Response from the Department for Business, Energy and Industrial Strategy

The government remain committed to bringing forward legislation to deliver on our commitments on employment as soon as parliamentary time allows. Numerous Private Members Bills (PMBs) have been introduced on the matter of employment rights, as a result of the PMB ballot in the Commons. The government is working closely with these members on their proposals.

The Queen's Speech on 10 May 2022, set out a packed and ambitious legislative programme that includes a comprehensive set of bills which enable us to deliver on priorities like growing the economy, which will in turn help address rising living costs and get people into good jobs. While there is no Employment Bill, we are making good progress on bringing forward alternative legislation to deliver on our commitments on employment.

We recently laid legislation in the House of Commons which extended the ban on using exclusivity clauses to contracts where a worker's guaranteed weekly income is below the Lower Earnings Limit. The 2019 manifesto pledged changes to enhance workers' rights and support people to stay in work. The Government is backing five Private Members Bills. These Bills have all passed Committee Stage and will deliver on the manifesto commitments by helping new parents, unpaid carers, hospitality workers, and giving all employees easier access to flexible working.

Over the past year, the government has proven its commitment to supporting workers across the UK, including the largest ever cash increase to the National Living Wage (NLW). On 1 April 2023, the government will increase the National Living Wage (NLW) for workers aged 23 years and over by 9.7% to £10.42. This keeps the government on track to achieve its manifesto commitment for the NLW to equal two-thirds of median earnings by 2024 (if economic conditions allow). The government has also taken further steps to support workers, such as: closing the loophole which sees agency workers employed on cheaper rates than permanent workers; Extended eligibility for the minimum wage to thousands of seafarers; Quadrupled the maximum fine for employers who treat their workers badly and bringing into force into force 'Jack's Law', a world-first, which gives statutory leave for parents who suffer the devastating loss of a child. Future reforms will build on this record to ensure that we make the most of all the opportunities available in our flexible labour market.

Recommendation 10: ***In the meantime, we recommend that DWP should work with TPR to estimate how many people working in the gig economy should be classed as workers and what resources or powers TPR needs to be able to ensure employers in the sector comply with their auto-enrolment duties. They should report back to us by March 2023.*** (Paragraph 85)

We will continue to work with TPR and BEIS on addressing this complex issue. It is our view that many 'gig' economy workers are already eligible for Automatic Enrolment, including fixed term contract, zero hours and agency workers. The Pensions Regulator is responsible for maximising employer compliance and monitors developments with the gig economy, taking action where appropriate to ensure businesses meet their Automatic Enrolment obligations.

In 2017, BEIS commissioned research to develop its understanding of the characteristics of those participating in the gig economy and their experiences within it. The research found that around 4% of the population in Great Britain had worked in the gig economy in the previous 12 months. Since the publication of the 2018 BEIS research, there has been a growing body of external research looking at the gig economy. The definitions and metrics used to track or forecast trends in the gig economy vary considerably across studies. BEIS continues to explore further options to collect more timely and robust data on labour market trends and the gig economy, including through collaboration with the ONS.

Recommendation 11: **We support TPR's efforts to encourage gig economy employers to offer pensions to those workers who do not come under the definition in the Pensions Act 2008.** ***We recommend that DWP explore what steps could be taken to support this, including through the development of sectoral pension schemes, available to any employer in a sector that wants to use it.*** (Paragraph 88)

We believe that the definition of jobholder in the AE legislation is clear and that there is no need to alter that definition at the present time. We are seeing that gig economy workers who meet the definition of a jobholder are already being brought within the scope of AE through the compliance work carried out by the Pensions Regulator and the government's efforts to clarify guidance on employment status.

Collective Defined Contribution (CDC) pension schemes have the potential to transform the UK pensions landscape and deliver better retirement outcomes for pension savers. The legislation to implement single and connected employer CDC schemes came into effect on 1 August 2022. There is strong appetite to broaden CDC provision beyond the single or connected employer regime. We, therefore, aim to consult soon on potential policy proposals to accommodate well designed and well-run multi-employer and master-trust CDC schemes to operate either on a sectoral basis or wider.

Gender pensions gap

Recommendation 12: ***We recommend that the Department for Work and Pensions work with colleagues across government and other stakeholders to agree a definition of the gender pension gap and a target to reduce it.*** (Paragraph 91)

Together with stakeholders across government, we are developing a coherent framework for understanding the scale and challenge of the gender pension gap. The government will continue to collaborate to find a suitable definition of the gender pension gap, which enables the development of a metric for measuring progress on reducing the gap. This will not only allow us to monitor and drive the progress made under Automatic Enrolment beyond equalising participation rates but will also provide the evidence base for a suitable policy response to tackle the issue. Any target to reduce the gender pensions gap could only be considered once a suitable definition has been agreed upon.

The government still acknowledges the challenges of differences between male and female working patterns and earnings. We will continue to monitor and evaluate pension contributions and participation by gender and publish data annually through our Workplace Participation and Savings trends publication. It is, however, important to recognise that in addition to government's role there are actions that can be taken by individuals, employers and the financial services industry, in helping to equalise retirement outcomes for men and women – we can look at opportunities to promote this.

Carers

Recommendation 13: ***We recommend the Government consider the case for a carer's credit, for example, to their auto-enrolment pension. If it chooses not to do so, it must explain its alternative plan to address the gender pension gap mainly caused by labour market inequalities.*** (Paragraph 95)

The government recognises the valuable role of carers, and that carers are disproportionately women. Our aim is to extend the pension saving of those who have historically under-saved for retirement, through implementation of the 2017 AE Review Measures. AE works through the employer-worker relationship and is based on a contract of employment. The system was not originally envisaged to provide credits for groups outside the labour market. The 2017 AE Review set out the government's ambitions for the future of AE to enable more people to save more and to start saving earlier. These changes would help improve financial resilience for those who have historically been under-saving for retirement, such as young people, women and lower earners. The government remains committed to the implementation of these ambitions in the mid-2020s.

We will continue to prompt people to engage with their pensions. The pensions industry, employers and the government all have a role to play in this. We look to promote opportunities for employers to do more within the existing AE framework. The 2017 review looked carefully at excluded groups, including those providing informal care. At the time, the conclusion –following extensive input and consultation – was that there should be no change to the way that carers are currently treated through AE.

However, where eligible carers are working, and meet the AE criteria, they will be automatically enrolled into a workplace pension. If they earn below the threshold, they can still ask to be enrolled into their employer's workplace pension scheme and begin saving in their own right. The government has ensured that Carers in receipt of Carer's Allowance (providing at least 35 hours of care per week) are automatically credited with a Class 1 National Insurance Credit which helps to protect their future entitlement to a State Pension. Additionally, individuals who provide care of between 20 and 35 hours per week can apply for Carer's Credit which helps protect their future entitlement to State Pension. State Pension eligibility can be built through being credited with NI credits including for Child Benefit. HMRC have taken steps to encourage new parents to claim Child Benefit regardless of household income to help them build qualifying years of National Insurance for future State Pension entitlement.

Earnings trigger

Recommendation 14: ***Following publication of this (low earners) research, DWP should write to us setting out a timetable to review the level at which the earnings trigger is set and, if it is unable to do so, explain what action it intends to take to address the exclusion of low earners from auto-enrolment.***

There is a statutory requirement under section 14 of the Pensions Act 2008 for the Secretary of State to review the earnings trigger and the qualifying earnings band for AE in each tax year. This review is intended to set the trigger at a level that brings those individuals into pension saving for whom it pays to save, while recognising the importance of an individual's own financial decisions. The Department will confirm and announce the earnings trigger and related AE thresholds for 2023/2024 in the normal way.

An analytical work programme is addressing evidence gaps on choices around the trigger and the timing/phasing of changes to the LEL. This includes research underway to understand the views and attitudes of low earning employees toward AE, and quantitative analysis of the impacts of any changes across the income distribution. We also continue to monitor opt-out rates, particularly for low earners, given the increasing cost of living.

Multiple jobs

Recommendation 15: ***We also recommend that DWP and HM Treasury continue to explore ways to bring multiple jobholders within the scope or auto-enrolment, for example, by amending the PAYE coding notice system to add an instruction to auto-enrol.*** (Paragraph 102).

DWP have commissioned HMRC for updated analysis using Real Time Information on multiple jobholders, which will enable us to consider the scale of the challenge and determine next steps.

The position of multiple job holders was previously considered as part of the 2017 AE Review. The Review concluded that it was not possible to identify a straightforward, proportionate administrative or automatic route for combining earnings or assigning which of several employers should then become responsible for enrolling their workers and paying contributions. If someone has more than one employer, you can't ask one employer to aggregate earnings and enrol them – not least as the individual may not want one employer to be aware of the other; recognising that relying on an opt-in system alone may not be sufficient, we will look at targeted engagement to support this group.

There are a number of other methods to increase pension saving amongst multiple jobholders. The 2017 Review set out our ambitions on enhancing the framework with a package of measures that included removing the lower earnings limit to make contributions payable from the first pound of earnings. This will help to build financial resilience through generating more meaningful retirement savings for multiple job holders, young people and lower earners, many of whom will be women.

Therefore, every eligible worker would benefit from an employer contribution if they are enrolled, or opt in. This would ensure that part-time workers who opt in get an employer contribution for every pound they earn in every job. And it would help to simplify the way many employers assess their workforce and calculate contributions. Where an individual does not earn more than £10,000 per annum in a single job, they are not eligible to be automatically enrolled. However, they can opt into a scheme. If eligible workers earn more than the Lower Earnings Limit – £6,240 in 2021/22 – in one job, they will also receive a mandatory pension contribution from their employer on earnings over that level.

NPA/RAS

Recommendation 16: ***We recommend HM Treasury consider whether payments can be brought forward and, if not, whether arrangements can be put in place for backdating payments, at least to 2021/22, when the plans to equalise outcomes for low earning pension savers were first announced. We urge the Government to set out its strategy for maximising take-up and explain how it will work with stakeholder organisations on this.*** (Paragraph 108).

Response from HM Treasury

This time lag from announcing the NPA top-up to delivery is due to the complex nature of the IT changes required, as well as other ongoing HMRC delivery programmes. This timetable ensures that these changes can be delivered on time and in full.

The government shares your desire to see all eligible individuals take up this payment, and HMRC will contact eligible customers after the end of the 2024–25 tax year to tell them about the top-up payment and explain what they need to do. We agree that how affected individuals are approached will be key. Therefore, HMRC will use customer insight experts and work with key stakeholders, including the Low Incomes Tax Reform Group, to design and develop a suitable digital service for these customers. HMRC appreciates that it will need to consider how and when it communicates with customers eligible for this top up payment and ensure they recognise it as a genuine communication from HMRC. The government will also ensure that digitally excluded customers have an appropriate way to make their claim.

On the Committee's recommendation to back-date top-up payments to the current tax year, this would make delivery more complex for HMRC. In addition to that increased complexity, for HMRC delivery and the impacts this could have on individuals who have been in receipt of means-tested benefits such as Universal Credit, the government must balance a desire to support low earners in NPA schemes with the need to put the public finances on a sustainable footing. The government is striving to encourage all eligible individuals to take up their bonus and backdating payments to this year would mean that the Exchequer cost would be significantly increased in the first year. Although the IT system will be delivered for April 2025, the government has committed to backdate the first payments to 2024–25, in order to provide more support to lower earners.

Pension sharing on divorce

<u>**Recommendation 17:**</u> ***As a first step towards a strategy to improve take-up of pension sharing on divorce, we recommend that DWP work with the Ministry of Justice and experts in the area to produce regular and reliable statistics on pension sharing orders. It should report to us on its plans for this by March 2023.*** (Paragraph 113).

We welcome in principle having regular and reliable statistics on pension sharing as it supports the understanding of financial independence in retirement. MoneyHelper provides guidance on pension sharing on divorce which is available here.

His Majesty's Courts and Tribunals Service (HMCTS) is responsible for collecting and collating statistics in England and Wales on pension sharing orders. We will engage with HMCTS to understand the barriers to producing regular and reliable statistics on pension sharing orders that can be published.

High income child benefit charge

<u>**Recommendation 18:**</u> ***We recommend that DWP explain what arrangements it intends to put in place to ensure this does not have a detrimental impact on their State Pension entitlement.*** (Paragraph 117)

The government has encouraged families who are responsible for a child under 12 to claim Child Benefit regardless of household income to help them build qualifying years of National Insurance for future State Pension entitlement. We will keep this under review. Information on what parents should do to protect their future State Pension entitlement is clearly provided on the Child Benefit claim form.

Not all of the half million people mentioned at the Committee hearing will fail to receive a qualifying year of National Insurance as they may gain one through employment, self-employment or other qualifying NI credits. In addition, many individuals build up sufficient qualifying years for the full rate of the new State Pension, over a possible working life of over 45 years, even if there are some gaps in their National Insurance record. Most individuals under the age of 50 will get the full rate of the new State Pension with 35 qualifying years.

Guidance

<u>Recommendation 19:</u> ***We recommend that DWP and MaPS consider how the mechanisms available to increase take-up of Pension Wise—signposting requirements and a dedicated media and marketing budget—could be applied to MoneyHelper Pensions.***

The government supports appropriate marketing of guidance services, including MoneyHelper Pensions. However, this is subject to scrutiny to ensure that public money is spent appropriately. Using the feedback from the recent Call for Evidence, we are exploring further options for encouraging the use of guidance, including at points earlier than when accessing savings. MaPS's Pension Guidance Transformation Strategy will improve triage and transfers between the services and give customers smoother access to the right pensions guidance for them. This means that signposting to Pension Wise will also signpost to MoneyHelper Pensions.

People are also made aware of, or are signposted to, MaPS pension guidance services by Simpler Annual Benefit Statements, Wake-up packs, and the industry-led Pension Attention campaign. Signposting, and other information necessary to support individuals to understand the pensions displayed on pensions dashboards, are among the issues that are being considered by the Financial Conduct Authority when developing the rules for pensions dashboard providers.

<u>Recommendation 20:</u> ***MaPS should explain the role it expects its pensions guidance services to play in meeting its goal to have 5 million more people understanding enough to plan for and in later life by 2030.***

<u>Recommendation 21:</u> ***It should also explain how it plans to work with employers to ensure they play their part in meeting this goal.*** (Paragraph 123)

The Money and Pensions Service will be providing a separate response to the Committee and will address these recommendations.

Guidance v Advice

<u>Recommendation 22:</u> ***We recommend DWP and the FCA report to us on progress in clarifying the boundary between advice and guidance by March 2023.*** (Paragraph 126)

We work closely across government with the Financial Conduct Authority (FCA) and HM Treasury who lead on the provision of financial advice. The FCA have provided a separate response to the Committee which addresses this recommendation.

Engaging with members

<u>Recommendation 23:</u> ***We recommend that TPR report back to us by March 2023 on the progress that has been made in resolving concerns that the Privacy and Electronic Communications Regulations prevent schemes from doing so.*** (Paragraph 128)

<u>**Response from The Pensions Regulator.**</u>

The Pensions Regulator and the Department for Work and Pensions are continuing to work together, engaging with the Information Commissioner Office over how we can address the barriers faced by occupational pension schemes in communicating with their members in general and those who have been auto enrolled into schemes. We are also in dialogue with the Department for Digital, Culture, Media & Sport on how the provisions contained in the Data Protection and Digital Information Bill extending the 'soft-opt-in' rule in the Privacy and Electronic Communications Regulations, to non-commercial organisations, will help pension schemes in this regard. We will report back to the Committee by March 2023 on the progress made on this issue.

Financial education

Recommendation 24: ***DWP, MaPS and the FCA should continue to explore ways that savers can be supported to take control of their finances through information, education and support from pension schemes and employers.***

The government will continue to help people become more informed savers. It will take a combination of action by government, employers, pension schemes, and the regulators to ensure people are able to take control of their finances.

With record numbers of people saving for retirement and a shift toward more people with multiple pension pots, it is more important than ever for people to understand their pensions information and prepare for financial security in later life. Savers are already signposted or nudged to pension guidance and provided with tools that can help them take control of their finances in a variety of ways, including Simple Annual Benefit Statements, the Stronger Nudge to Pensions Guidance, Wake-up packs, and the activity of schemes themselves, such as the industry-led Pension Attention campaign. This will be strengthened in future, by pensions dashboards and the mid-life MOT.

Pensions dashboards will support savers to make decisions about their pensions, help them to reconnect with their lost pension pots and enable them to see what they have accrued so far and an illustration of what they might expect in retirement. Users of pensions dashboards may engage with their pensions in a number of ways. For instance, they could seek further information about their pension using the contact information displayed on dashboards. Such increased engagement could help individuals build a greater sense of ownership of their pensions.

We are working closely with delivery partners, including the FCA and MaPS. The FCA published its final rules for personal and stakeholder pension schemes at the beginning of November. They are currently consulting on rules for dashboard operators, alongside MaPS' consultation on design standards. Taken together, these proposals will set out requirements and expectations for dashboard service operators. We will continue to explore further ways government, pension schemes, and employers can support savers to take control of their finances.

The way forward

__Recommendation 25:__ ***We recommend that the Government set up a new office tasked with: building and maintaining an evidence base; explaining the trade-offs involved in different policies; reporting regularly to Parliament on progress in meeting objectives relating to retirement adequacy and the gender pension gap.*** (Paragraph 141)

The government does not believe that a new office is necessary to achieve this aim. DWP already provide evidence and analysis in relation to pensions and work closely with a range of government, regulatory and external stakeholders. DWP has significantly enhanced the pension saving evidence base through providing research, analysis and modelling to inform strategy and policy development and recommendations – as well as reviewing system outcomes.

This is complemented with engagement with external research projects, wider survey and administrative data development, as well as considering the valuable insights available from across the industry and regulators. DWP has a comprehensive research and trials programme, including recent qualitative research work on Low Earners, and testing the views of savers on engagement with climate and pension saving, which we seek to put in the public domain., We work closely with regulators and other government departments to inform our evidence base; for example, working with TPR, FCA, and HMRC to monitor the impacts of high inflation on pension saving.

In the Automatic Enrolment Review 2017 we set out our assessment of the impact of Automatic Enrolment on savers' participation in pension saving and achievement against the Target Replacement Rate – and we have committed to provide an update to the committee on these figures as soon as the data is available.

Appendix 2: Financial Conduct Authority Response

Letter dated 30 November 2022 from Sarah Pritchard, Executive Director of Supervision, Policy and Competition—Markets, FCA

I am writing in response to the publication of the Committee's 30 September 2022 report Protecting pension savers – five years on from the pension freedoms: Saving for later life. We welcome the Committee's report and, while pensions adequacy is a matter for Government and not the FCA, we recognise the importance of the issues covered by the report. I will address in turn each of the report's recommendations that concern the Financial Conduct Authority (FCA).

We recommend that by March 2023, DWP, the FCA and MaPS publish the metrics they intend to use for evaluating the stronger nudge. These should cover issues including take-up, the timing and the extent of behaviour change resulting from it. The evaluation should be completed no later than the end of July 2023. In addition, DWP should commission research to look at other initiatives trialled in the meantime, such as automatic appointments.

As part of our ongoing monitoring of pensions data, we work closely with the Money and Pensions Service (MaPS), alongside the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR) to understand the impact of the Stronger Nudge on consumers. As we have said previously, we continue to believe that there is more that can be done to support consumer decision-making beyond the Stronger Nudge, including the possibility of earlier nudges. I discuss this further below in response to the final recommendation I address.

There are several data sources that we will be monitoring to see whether there is a higher take- up of Pension Wise and its impact. Although it is not possible from these data sources to confirm whether the higher take up is as a result of the stronger nudge, by comparing the data prior to the stronger nudge and after the stronger nudge, we hope to be able to draw inferences as to its success.

Separate to these comparative data sources described below, MaPS also collects data specifically in relation to Stronger Nudge volumes, as described in their separate response to the Committee relating to this recommendation (noting the caveats described by MaPS in its response). While this does not permit comparison, it will give an idea of the numbers of people booking appointments following a Stronger Nudge which will help with the inferences we hope to draw as mentioned above.

As identified in my letter[1] to the Committee on 23 September, the primary metric for seeing the impact of the Stronger Nudge is MaPS' Pension Wise take-up data, which MaPS publishes quarterly on its dashboard.[2] The take-up data following June 2022 can be compared to data prior to the introduction of the Stronger Nudge to see whether there has been an increase in uptake and we will be reviewing this.

The other data sources that we will be considering are:

(a) Our retirement income data which show the number of contract-based pension plans accessed for the first time with regulated advice, Pension Wise guidance, or no advice or guidance. This gives an understanding of whether the proportion of contract-based pension plans being accessed for the first time with advice or guidance is increasing (subject to the data being pots-based as opposed to on an individual basis). We publish this data[3] - from all FCA regulated firms that provide retirement income products - annually as part of our Retirement Income Market Data. Our latest data[4] was published in October 2022 covering the period 1 April 2021 to 31 March 2022, before the Stronger Nudge rules came into effect. The next set of data will be published in autumn next year.

(b) Our Financial Lives survey (FLS) which allows us to hear directly from consumers in all the UK retail financial sectors we regulate, including the pensions and retirement income market. Specific questions in our FLS that may allow us to assess the impact of Stronger Nudge on consumer behaviour include: questions on factors taken into account when making a decumulation decision; consumer understanding of decumulation options; and satisfaction with the decumulation option chosen. We intend to publish the full results of our Financial Lives 2022 survey early next year. These results reflect the position before the Stronger Nudge came into force on 1 June 2022. Future FLS results can be compared with the 2022 FLS data.

Together, the metrics described above will allow us to see the impact of the Stronger Nudge as part of our ongoing monitoring.

In addition to these data sources, our record-keeping requirements set out in our Systems and Controls Sourcebook (SYSC) mean firms must keep orderly records which are sufficient to enable us to monitor firms' compliance with our rules. In our Stronger Nudge Consultation Paper (CP21/11)[5] we provided an indication of areas where providers may wish to keep records to meet these requirements and ensure the information provides some indication of the impact of our Stronger Nudge rules. This included recording the number of opt-outs received, nudges delivered, and appointments booked.

We recommend DWP and the FCA report to us on progress in clarifying the boundary between advice and guidance by March 2023.

We have announced that we intend to carry out a holistic review of the boundary between advice and guidance so we can understand how the boundary is operating, and to inform any future consideration of legislative change.

1 https://committees.parliament.uk/publications/30377/documents/175473/default/
2 https://moneyandpensionsservice.org.uk/moneyhelper-pension-take-up-dashboard/
3 https://www.fca.org.uk/data/retirement-income-market-data/about-data
4 https://www.fca.org.uk/data/retirement-income-market-data-2021–22
5 https://www.fca.org.uk/publication/consultation/cp21–11.pdf

We want to ensure that consumers get the support they need to make effective investment decisions – this is a key element of our Consumer Investments Strategy.

Before we start work on the holistic review, we have today published a consultation paper as part of our Consumer Investments Strategy which seeks to provide a regime for simplified advice on investments into Stocks & Shares ISAs, to encourage greater take up of advice by consumers.

The proposals seek to:

- streamline the customer 'fact find' so advice is more straightforward for both firms and customers;
- make the qualification requirements for the new regime more proportionate so delivering the simplified advice is less costly for firms; and
- allow advice fees to be paid in instalments so customers aren't burdened by large upfront bills.

This consultation is focused on a limited range of investments in order to ensure consumer protection but we hope it will lead to a greater take up of advice to support investment decisions in simple products.

In addition to the above we are already working with industry to determine how the regime currently works and to support firms to test innovative propositions in the regulatory sandbox and through our innovation hub services. We are engaging in particular with the ABI to address any misconceptions or issues that can be resolved without change to the current boundary, and to then inform any future discussion about whether further legislative change is required.

I am happy to provide a further update on the status of this work by the end of March 2023, by which time I can update on the feedback to our consultation on a simplified advice regime.

We welcome the work being done to improve engagement and support savers in making decisions while they save, for example, through the development of pensions dashboards and the Mid-Life MoT and simpler annual benefit statements. DWP, MaPS and the FCA should continue to explore ways that savers can be supported to take control of their finances through information, education and support from pension schemes and employers. We also welcome the fact that, alongside this, initiatives are being progressed with the aim of improving outcomes for savers even if they do not engage, such as the development of a framework to help employers judge whether the scheme they have chosen for auto-enrolment represents good value for money for savers. As we said in our report on Accessing Pension Savings, there is demand for the further development of Collective Defined Contribution (CDC) schemes in future and it is right the Government continues to support this. We will return to look at these initiatives as they develop.

As noted above, we continue to believe there is more that can be done to support consumer decision-making. Feedback to our Call for Input on the Pensions Consumer Journey,[6] published jointly with TPR, explored how to engage consumers throughout their pensions journey so they can make informed decisions leading to better pension saving outcomes.

As set out in my letter[7] to you of 23 September, and consistent with what we said in the Feedback Statement referred to above, we do not think proposing new prescriptive rules is the right approach at this point given the highly personalised nature of the pensions consumer journey. We think this is best left to firms to consider the most appropriate way of supporting consumers in their decision-making throughout their journey, tailoring communications based on their customer base with a focus on ensuring consumers achieve good outcomes.

This is consistent with our recently introduced Consumer Duty (the Duty)[8] which requires firms to act to deliver good outcomes for retail consumers and to put consumer needs first. Our guidance on the Duty talks about firms communicating and engaging with customers so that they can make effective, timely and properly informed decisions about financial products and services and can take responsibility for their actions and decisions. As noted in my letter, this could include additional and earlier nudges to guidance when consumers have not yet made up their mind about how to access their pensions savings.

Our Stronger Nudge rules represent a minimum requirement and firms can go further than this. Building on feedback to the Pension Consumer Journey Call for Input, firms could also consider making use of specific touchpoints when consumers are more receptive to engagement or may be primed to make decisions and are not limited to signposting Pension Wise – MoneyHelper Pension guidance is also a useful tool at earlier points in the pensions consumer journey.

So, industry has a key role to play and needs to consider the implications of the Duty in this area. We remain open to discussions with industry if they are considering more innovative ways to engage consumers at different stages of their pensions journey. We are also exploring with some firms whether trials could be conducted to test different ways of engaging consumers to achieve good outcomes.

Our work in relation to advice and guidance described above is also relevant to this recommendation.

We will continue to work closely with DWP, TPR and MaPS on these issues, including following DWP's recent Call for Evidence on Helping savers understand their pension choices.[9]

I hope that you find this response helpful. We will keep you informed of our work in this area as it progresses, and ensure you are notified of relevant developments. If you need anything further on any of the points covered, please do let me know.

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6 https://www.thepensionsregulator.gov.uk/en/document-library/consultations/call-for-input-pensions- consumer-journey/pensions-consumer-journey-feedback-statement

7 https://committees.parliament.uk/publications/30377/documents/175473/default/

8 http://www.fca.org.uk/publications/policy-statements/ps22–9-new-consumer-duty

9 https://www.gov.uk/government/consultations/helping-savers-understand-their-pension-choices/helping-savers-understand-their-pension-choices#:~:text=Purpose%20of%20the%20call%20for%20evidence&text=DWP%20wants%20to%20achieve%20similar,they%20want%20from%20their%20pensions.

Appendix 3: Money and Pensions Service

Letter dated 4 November 2022 from Caroline Siarkiewicz, Chief Executive, Money and Pensions Service

I want to thank you for the opportunity for the Money and Pensions Service (MaPS) to provide evidence to the Work and Pensions Select Committee inquiry on 'Protecting Pensions Savers – five years on from the pension freedoms: Saving for later life'. Following the Committee's report published 30 September 2022, I have outlined our response to the recommendations relating to MaPS.

Recommendation: ***We recommend that by March 2023, DWP, the FCA and MaPS publish the metrics they intend to use for evaluating the stronger nudge. These should cover issues including take-up, the timing and the extent of behaviour change resulting from it. The evaluation should be completed no later than the end of July 2023. In addition, DWP should commission research to look at other initiatives trialled in the meantime, such as automatic appointments.***

MaPS response:

Stronger Nudge rules and regulations came into force on 1 June 2022 to encourage individuals to access guidance when accessing their DC pension savings. MaPS, alongside industry, have been responsible for the implementation of Stronger Nudge as set out in legislation.

As a government policy, wider evaluation of Stronger Nudge outside of the impact on MaPS services, including defining the metrics that will be used for evaluation, is the responsibility of government and regulators.

At MaPS, we are collecting data on Stronger Nudge volumes and how the policy might impact upon the levels of non-attendance, cancellations, incomplete appointments, and customer satisfaction rates. This data, alongside any other data collected, is intended to assess the impact of Stronger Nudge on the customer experience of the Pension Wise service.

MaPS are collecting data related to Stronger Nudge volumes using:

- A Stronger Nudge booking URL specifically for pension providers to book their customers appointments
- A dedicated Stronger Nudge booking number for providers to share with their customers
- A vanity URL for providers to share with their customers who would rather book their own appointments.

However, not all Stronger Nudge customers will be captured using this approach. For example, not all providers are using the provider booking link or the new dedicated Stronger Nudge booking line. It is also possible that, even if providers share the dedicated booking line and the URL with their customers, some customers will still come to us organically, using online search engines.

Recommendation: ***We recommend that DWP and MaPS consider how the mechanisms available to increase take-up of Pension Wise—signposting requirements and a dedicated media and marketing budget—could be applied to MoneyHelper Pensions. MaPS should explain the role it expects its pensions guidance services to play in meeting its goal to have 5 million more people understanding enough to plan for and in later life by 2030. It should also explain how it plans to work with employers to ensure they play their part in meeting this goal.***

MaPS response: MaPS engages in both paid and non-paid activity. MaPS paid marketing is dedicated to driving take-up of its Pension Wise services. MaPS non-paid activity, including, engagement with partners, pensions engagement season with industry and developing a mix of channels to meet client need, drives take-up of its wider offer, which includes MoneyHelper.

Market spend is subject to Cabinet Office rules and DWP and HMT approval to ensure that budgets are spent appropriately. MaPS will continue to undertake appropriate marketing of its guidance services, including both Pension Wise and MoneyHelper, in line with customer need and service developments.

MaPS Future Focus agenda for change, which forms part of the UK Strategy for Financial Wellbeing Delivery Plan, details the estimated impact of MaPS pensions guidance services. Development of a retirement hub incorporating the MaPS pensions dashboard is estimated to positively impact 2 to 3.5 million people by supporting them with personalised guidance at every stage of their pension journey. Implementation of a financial Mid-life MOT is estimated to positively impact 750,000 to 1.75 million people through supporting savers to consider their financial wellbeing for later-life.

While these activities will play a key role in ensuring that 5 million more people understand enough to plan for and in later life by 2030, it is important to note that both the work of others and working with others will be key to achieving these goals. MaPS will continue to engage with a broad range of organisations, including within the wider pensions landscape, together with government and regulators.

Recommendation: ***We welcome the work being done to improve engagement and support savers in making decisions while they save, for example, through the development of pensions dashboards and the Mid-Life MoT and simpler annual benefit statements. DWP, MaPS and the FCA should continue to explore ways that savers can be supported to take control of their finances through information, education and support from pension schemes and employers.***

MaPS response: We are continuing to develop ways to better support people to make the most of their money and pensions, including through our three-year Pensions Guidance Transformation Programme. This programme will provide a holistic approach to pensions guidance through a 'single front door'. This programme includes the development of a digital Pension Wise appointment, a retirement planning hub and a MoneyHelper Pensions Dashboard. Additionally, MaPS are developing a financial Mid-life MOT. These tools will be important in achieving the UK Strategy aim to support 5 million more people to know enough to make decisions for and in later life.

MaPS works closely with employers and employer organisations to increase accessibility to, and to improve the reach and impact of, our pensions guidance services. For example, through our Pensions Transformation programme, we will be encouraging employers, under licence, to use and white label our digital guidance tools and content on their own intranets and websites, including the upcoming Pension Wise digital journey. Throughout this programme, we will be engaging employers to ensure that the transformation is built upon both user and employer needs.

Please let me know if you have any further questions. We're keen to continue to engage with the Committee on this issue, as well as any future inquiries.