



Department
for Work &
Pensions

GUY OPPERMAN MP
Minister for Pensions

Stephen Timms MP
Chair, Work and Pensions Select Committee
House of Commons

6 January 2022

Dear Stephen,

I am writing in response to your letter dated 25 November. I understand that The Economic Secretary to the Treasury has written to you separately in response to your question about the Pensions Advice Allowance.

Enhanced policy and research

I want people to receive the right support at the right time for them, whether that is Pension Wise, or other forms of guidance and advice.

The Department undertook research to inform the strengthening of the policy, which was outlined in my reply to your letter of 27 July, following a brief discussion of the Stronger Nudge at the oral evidence session on 14 July.

My officials undertook in-house qualitative research earlier this year, with pension savers to test the effectiveness of the Stronger Nudge to Pension Guidance policy with an enhanced opt out. This consisted of eight focus groups, using case study examples to understand their views on including an enhanced opt out in the policy. Qualitative research was used as it allows discussions with individuals who would be affected by the proposed policy in a way that quantitative research would not. The findings provided evidence for us to proceed to consultation with this strengthened element of the policy.

Automatic appointments and Mid-life MOT

I do not believe a policy of automatically referring all members aged 50 to Pension Wise is appropriate. These members may not have plans to access their savings within the next 15-20 years and may benefit more from specific guidance. A number of

witnesses did, as you state in your letter, argue that it may be beneficial for members to have a Pension Wise appointment before they have made a final decision about access. For example, Colin Clarke of Legal and General referred to the findings from the Stronger Nudge trial where the referral to Pension Wise was most effective at the point that a member contacted a scheme to ask for information about their options. This concurs with MaPS' testimony to the committee, that Pension Wise is most effective when members are actively thinking about their decumulation options but have not necessarily committed to a final access decision. A referral to Pension Wise is most effective and appropriate for members who are considering how to access their defined contribution pension savings and have begun to take steps to find out more. It is therefore right that members are nudged towards Pension Wise at this point.

The Stronger Nudge regulations will allow schemes to refer members to Pension Wise when a member contacts them to discuss their options for access. In addition, our regulations apply when a member is transferring their pension savings with the intention of accessing. This ensures that members considering how to access, but who have not yet made a final decision, are referred to Pension Wise. These are the earliest points where it is possible to refer members to Pension Wise within the powers conferred by the Financial Guidance and Claims Act.

The Mid-life MOT offers an opportunity for earlier intervention on wealth, work, and wellbeing. The private sector is working with government to deliver the Mid-life MOT to their own employees. In addition, we have done trials with 10 Local Enterprise Partnerships and I have set up the Mid-life MOT advisory board.

Legislation and costs

Automatic Pension Wise appointments would require new Primary Legislation and would entail significant costs. Section 19 of the Financial Guidance and Claims Act only allows the Secretary of State to make regulations in relation to applications from beneficiaries, therefore it cannot be used to bring in a system of automatic Pension Wise appointments.

To estimate the cost of auto-enrolling all pension savers aged 50 into Pension Wise, we estimated the number of individuals aged 50 in the UK that are enrolled in a workplace pension in a given year. We then multiplied this by the estimated cost range of facilitating a Pension Wise appointment (including cancellations of appointments). These are very basic estimates and should not be regarded as definite. On this basis we estimated the cost could potentially be in the range of £45 million - £80 million per year. These are illustrative estimates of the potential cost which should only be used in the context of the caveats explained above. This cost would be borne by levy payers.

Identifying individuals

The issue of matching pots to people is complex. We currently lack the individual level data to answer this. DWP is part funding, and sits on the steering group of a Pensions Policy Institute data project to provide longitudinal analysis of data and trends in DC pension provision; specifically the number of pension pots held by a member, contributions and pension fund size. This is a data amalgamation project, using annually updated real data for individuals saving, or having saved into a pension in the UK. It will link the various pension pots which individuals have with different providers, to create a single combined data set that tells us how people are saving for their retirement.

A handwritten signature in blue ink, appearing to read 'Guy Opperman', with a large, stylized flourish underneath.

Guy Opperman MP
Minister for Pensions and Financial Inclusion



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Rt Hon Stephen Timms MP
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6th December 2021

Dear Stephen,

Thank you for your questions following the Minister for Pensions and Financial Inclusion and my evidence session at the Work and Pensions Committee as part of the inquiry *Protecting pension savers – five years on from the Pension Freedoms: Accessing pension savings*.

This letter provides a response to your first question on the Pensions Advice Allowance (PAA), which falls to HM Treasury. The Government is committed to helping people access affordable advice and guidance. The PAA was introduced to support this objective by allowing customers to access up to £500 tax free from their defined benefit contribution pension pot to redeem against the cost of financial advice. As you are aware, this allowance can be used by anyone, at any age, if their pension has a defined contribution element.

We continue to monitor the uptake of the PAA to understand the success of the scheme. The Government is keeping the level of PAA under review and continues to assess how well it is working, including considering any next steps following last year's evaluation of the Financial Advice Market Review led by the Financial Conduct Authority (FCA).

You also ask about the mechanisms by which the PAA could be amended. This would depend on the changes that were being made. The regulations which established the PAA are part of the 2017 amendments to the Registered Pensions Schemes (authorised payments) regulations 2009 which sets out the conditions for the PAA payment including that the payment does not exceed £500. Therefore, if we were to make any changes it would likely require amending this legislation through a statutory instrument.

I hope this response is helpful in answering your question. As you know, I am committed to ensuring that people receive the right advice and guidance when making key decisions in their lives such as planning for their retirement and look forward to continue working with the committee on this shared objective.

With very best regards

John

JOHN GLEN



Work and Pensions Committee

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Guy Opperman
Minister for Pensions and Financial Inclusion
Department for Work and Pensions

John Glen
Economic Secretary to the Treasury
HM Treasury

From the Chair

25 November 2021

Dear Guy and John,

Thank you for giving evidence to the Work and Pensions Committee's inquiry, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, last week.

Please could you provide answers to the questions below:

1. What is the Government's view on the success of the Pensions Advice Allowance?
 - a. Do you have any plans to amend the policy?
 - b. Could you outline the mechanisms by which the Pensions Advice Allowance could be amended?
2. The Minister for Pensions and Financial Inclusion told the House that Pension Wise usage should be the norm. I understood, and said so in the Chamber at the time [Commons Official Report, 16 November 2020; Vol. 684, col. 136], that that meant that "taking up Pension Wise guidance should be the norm". You clarified to the Committee that it meant that availability of Pension Wise should be the norm. Please could you set out the Government's view in writing for the Committee?
 - a. In the Commons debate on 16 November, I quoted what Baroness Buscombe, as a DWP Minister, said on 1 May 2018: "We all want people ... to make it the norm to use Pension Wise before accessing their pension" [Lords Official Report, 1 May 2018; Vol. 790, col 1995]. If this is no longer the Department's view, why has it changed?
 - b. You referred in your evidence to "further market research". What research did the Department for Work and Pensions undertake before proposals for what you described as the "beefed up" stronger nudge?

3. Pete Searle, Director, Private Pensions and Arm's-Length Bodies at Department for Work and Pensions, told us that "it would not be helpful in the Department's view" to "push" everyone aged 50 towards Pension Wise. Could you explain on what basis the Department has reached this view?
 - a. Are there plans for elements of Pension Wise appointments to be incorporated into the mid-life MOT?
 - b. A number of witnesses have told us that it is helpful for savers to think through the options for accessing their pensions well before the point of decision. Does the Department disagree with this view?
4. The Minister for Pensions and Financial Inclusion told us that primary legislation was required to trial automatic Pension Wise appointments. How would such a trial differ from the earlier stronger nudge trials, for which no primary legislation was needed?
 - a. The Committee was told that the potential cost of automatic appointments would be between £45 million and £80 million. Please could you share the basis for these calculations with the Committee?
5. Currently, it is not possible to identify individuals rather than holders of pension pots for the purpose of arranging automatic Pension Wise appointments or more generally for policy analysis. Given the importance of understanding pension savings for informing Government policy and the actions of regulators, why is there no programme to address this gap in understanding?

We would be grateful for a reply by **Thursday 9 December**.

Yours sincerely,



Rt Hon Stephen Timms MP
Chair