

## Written evidence from Prospect (APS0008)

### Introduction

1. This is Prospect's submission to the second strand of the Work and Pensions Committee three-part inquiry into the impact of the pension freedoms and the protection of pension savers.
2. In 2015, pension freedoms were introduced that enabled people over minimum pension age more choice about how they accessed their defined contribution pensions. The committee has chosen to engage in a major piece of work looking at the next steps for preparing and protecting pension savers, five years after these freedoms were introduced.
3. Prospect is a leading trade union that delivers advice, support, representation and a voice for our members. We are a not-for-profit organisation with over 250 staff helping to support more than 150,000 people in specialist, professional and technical roles across the private and public sectors. Our members work in a diverse range of professions, including energy, science, engineering, heritage, defence, entertainment and digital.

### Questions for the call for evidence

4. Prospect's responses to the call for evidence below:

1. Do people have access to a range of pension options to meet their needs for later life and how might these needs change in future?

At present the main choices for consumers when drawing their pension is between income drawdown products and annuities.

For the next generation of pension savers who retire predominantly with defined contribution pension savings, they are likely to utilise both types of product in retirement. This may be alongside each other or for annuity purchase following income drawdown at the start of their retirement.

We believe options that enable members to utilise both drawdown and annuities without requiring multiple policies with multiple providers may be advantageous to consumers.

With the introduction of 'pension freedoms' we are concerned at members continuing ability to manage income drawdown policies throughout their retirement. In retirement it is a likely prospect that the health of members will deteriorate, and we are concerned at negative outcomes for members if they become unable to actively take decisions on the level of income they are drawing and whether to switch to purchasing an annuity.

2. Are there other pension options, not currently available in the UK, which would better meet people's needs in later life?

Prospect supports the Pension Schemes Act 2021 which provides the regulations for the establishment of Collective Defined Contribution (CDC) schemes in the UK. However, the Act only enables the establishment of single employer CDC schemes. In time we believe this should be built upon in time with legislation that allows multi-employer schemes. There is academic discussion on potential for these schemes to be created by master trust providers for enrolment on an individual basis to consumers.

We are cautiously supportive of these being investigated once the concept of CDC is proven in the UK first with single and then with multi-employer schemes.

3. Are there barriers to providing other pension options which meet a need and are not currently available in the UK?
4. Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?

We offer guidance to our trade union members through responses to member enquiries as well as webinars and presentations. We have an affinity relationship with an independent financial adviser group, who we have appropriately vetted to ensure they offer an appropriate service for us to recommend to members.

We are concerned that there is a gap between generic information or guidance that is available for free and personalised recommendations from a financial advisor provided on a fee basis at a significant cost. We will expand upon the role that we believe the Money and Pension Service could have in bridging this gap in question 6.

Within our membership we have a group of retired members, formerly employed by UKAEA and latterly by AEA Technology plc. These members were denied the ability to make an informed decision when deciding to transfer their accrued pension rights from UKAEA into a newly formed private scheme, as the risk of insolvency of the sponsoring employer were not properly highlighted. The information provided by their employer and the Government Actuary's Department (GAD) as well as recommendations from advisors were solely concerned with the level of benefits promised and without consideration for comparative covenant strength between the government and a newly formed company. Freedom of information requests have revealed concerning pressures within GAD and UKAEA to ensure guidance did not put off employees from transferring. A campaign group representing these members made a submission to the first part of your inquiry which provides more detail on their predicament (PPS0025). Please revisit this for more information on the circumstances of these members and their campaign for justice.

The risks of employer insolvency were negated by advisors in the case of AEAT pensioners. However, we are also aware of reports that our members in the energy industry have in the past been targeted by financial advisors seeking to provide contingent fee advice on transfers from defined benefit to defined contribution schemes. We are concerned that reports from their presentations give the impression that the risk of employer insolvency was disproportionately highlighted as a major consideration with inadequate consideration of the strength of the employer covenant of the sponsoring employer and protection provided by the Pension Protection Fund. As well as placing a disproportionate emphasis on ability for children to receive an inheritance from their pension following death with money within a drawdown arrangement when the purpose of a pension is to provide an income in retirement.

5. What role should the Money and Pensions Service have in supporting people accessing their pensions for the first time, including through pension dashboards?

The Money and Pensions Service should provide information to consumers to help them understand the products available and the information provided by pension providers. This should include general guidance on how members may wish to draw their pensions, considerations, and examples. Prospect broadly supports measures that would increase the take up of the pension wise service from the pensions dashboard.

6. Should the Money and Pensions Service offer enhanced guidance or limited advice for people making decisions about their pensions?

The Pension Advisory Service has excellent limited information for consumers on pensions. An extension of this information to include generic advice for members in specific situations would be helpful to bridge the gap between generic information to personalised financial advice.

7. Can the success of auto-enrolment in helping people save into pensions be replicated for people in retirement through investment pathways?

The success of auto-enrolment has shown the influence of default options in guiding consumers to make decisions. There is clearly the potential for positive outcomes for making the journey from saving for retirement to drawing an income in retirement easier from utilising investment pathways. However, this influence shows that majority of consumers will follow the pathway passively, therefore it is incredibly important that these are appropriate.

For consumers to enjoy the same standard of living in retirement that they enjoyed during their working life, they will need an income at a higher level than the state pension in retirement. Therefore, everyone needs to make savings for their retirement. There is a consensus that workplace pensions are the appropriate default product for savings to provide an income on top of the state pension.

For default options to be utilised effectively for investment pathways, a consensus needs to be established on what these would look like. If each provider operates a unique investment pathway consumers' will not be able to make a like for like comparison at retirement when choosing a product. For annuity products comparisons enable consumers to shop around for the best deal. At present this is more difficult for members to achieve with drawdown products.

Providers should only default members into a product via an investment pathway that is likely to be suitable for most consumers. The design should only require action from consumers where they have clearly identifiable unique circumstances. This is much more difficult to achieve for investment pathways than a decision to enrol into a workplace pension scheme.

8. Including costs, what information do consumers need about different retirement products to make an informed choice?

Consumers need clear information on the risks involved with different product. For example, with drawdown products consumers need to have clear information on the investment risk and longevity risk of the product compared to an annuity. The requirements from the member should also be highlighted. For example, with a drawdown product may require making decisions on the level of income drawn to ensure money is drawdown at a sustainable rate to prevent their fund running out before their death.

9. Are pension schemes communicating options effectively to members and are there material differences between trust-based and contract-based pension schemes?

For schemes to be communicating effectively, members should be receiving the information they require to make an informed decision. Following on from the response to the question 4, for schemes to communicate effectively they should provide pertinent information to members.

Pension schemes provide members with information on the options that are available to them without information on the considerations members need to make when making their choices.

***April 2021***