Written evidence from the Creative Benefits Group (APS0026)

Introduction

The Creative Group is a pensions focused, but broadly based financial services group. It consists of three main service provisions –

- Creative Pension Trust is a master trust Authorised under the Pension Schemes Act 2017. It is a unique auto enrolment and pension scheme packaged solution which was opened to market in March 2015. Today there are c.14,500 participating employers, broadly 100,000 active members and 100,000 deferred. Funds under management are almost £560m and are growing at c.£14m a month.
- Creative Pension Trust is the fifth largest master trust pension scheme in the UK measured by number of participating employers.

In addition to Creative Pension Trust –

- A range of Employee Benefit Services is provided to some 500 employers.
- A range of Wealth Management services is provided to the individual employees of the employers who are either master trust or employee benefits clients, and others.
- Overall, Creative Group supports employers who employ c.500,000 staff.

The Creative Group welcomes this opportunity to respond to the Work and Pensions Select Committee's Call for Evidence.

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?

They do but it is incomplete (see below for our rationale) and people are often required to shop around as their provider will not necessarily offer a full range of options.

From a policy perspective, we are very concerned that in addition to 'undersaving' for retirement, which is a huge challenge of itself, the public, generally, is a very long way from understanding the financial challenges related to requiring care when they are elderly.

There is good news on the 'undersaving' for retirement aspect - Auto Enrolment is probably the biggest pensions policy success since the second world war. This success can be built on by implementing the key recommendations of the 2017 AE Review (which are – contributing from the first pound of earnings, so removing the 'lower earnings limit' offset, and enrolling employees from the age of eighteen). This would lead to greater retirement provision and in turn would help with later care requirements.

However, notwithstanding a number of initiatives by Governments of the day and even attempts at cross-party consensus, we remain some way from having a workable strategy to ensure dignity for those elderly people who need later life care, at a sensible price and in a manner that is fair.

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

Unfortunately, we have been unable in recent weeks to resource an investigation at this juncture however we would welcome the opportunity to contribute to future work on this aspect.

3. Are there barriers to providing other pension options which meet a need and are not currently available in the UK?

The biggest 'barrier' is the lack of awareness and associated education about the subject. Many are witnessing what could be described as today's 'golden age' of pensioners (but not all of today's pensionsers by any means) where their retired parents and others appear to be extremely comfortable in their retirement. However, the concept that working people today are likely to be as comfortable in their retirement is an illusion and there are a number of reasons for this.

Culture has changed, in the past there was a number of factors/habits which led to the financial achievements of today's pensioners (not exhaustive) –

- An aversion to debt
- The exponential growth in the coverage of occupational pension provision in the post-war period
- An increase in the value of the housing stock
- Some of the support envisaged by the SSPA 1975 (State Earnings-related Pensions or SERPS)

Notwithstanding the success of Auto Enrolment, which has extended pension provision to the previously unsupported workers, but is a relatively new policy which will take time to make a difference and (as mentioned above) needs further positive development, pension saving for a generation (at least) has been significantly below where the public needs it to be.

SERPS and its subsequent substitute policies have largely disappeared.

Access to housing assets is fast becoming the preserve of those who can rely on the 'bank of mum and dad' to fund deposits and, as a consequence, home ownership is unlikely to play the supportive part it has for those currently over age fifty.

4. Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?

Generally, no. We think there are many people who do not receive the guidance and/or advice they really need. The provision of the Pension Wise service is a positive and helpful step in the right direction, but the public at large are still a long way from taking up such services in numbers that will change matters fundamentally.

See our comments above, well off people will have access to advice on saving, tax-planning and related matters. However, the majority of members of the public no longer have easy access to 'regulated' advice since the introduction of the Retail Distribution Review.

The reason is straightforward and is linked to the education matter described above. Generally speaking, the UK public has little knowledge of pension matters and is not offered support through education in any structured manner.

The consequence of this is that most people are not aware of the risks associated with under providing for their later life until it is too late to do anything meaningful about it. Given their lack of awareness they (quite understandably) do not attach priority to paying the not insignificant minimum level of fees that make giving advice financially viable for IFAs. It also means they can unwittingly make costly mistakes, for example triggering the MPAA inadvertently.

Better off people use accountants as they understand the benefits of minimising tax payments and so are willing to pay professional fees. Home buyers pay fees to lawyers because they are motivated to have a roof over their heads and therefore understand the need to pay the fees.

If you don't understand the 'later life provision' (which includes pension and care provisions) risks you're running (because of the view of today's pensioners described above and the lack of awareness) why would you pay fees for advice?

Over a number of years we have expressed concern that there is a very big transfer of risk taking place whereby, in a reversal of the transfer of risk from individuals to institutions (initially mutuals such as friendly societies, employers and Government etc) that took place between the late 19th and 20th centuries, those risks have been transferred the other way. However, in the first transfer the institutions were (mostly) aware of the risks they were taking on, the public does not understand the nature of the risks now being transferred to them and we believe that to be unfair.

We note that the actuaries' professional body has highlighted this risk transfer recently.

Auto Enrolment is however a positive attempt to stall the tide.

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

It is positive that MaPS exists to provide support to people. It will be imperative that people are supported in their understanding of what a dashboard is, how it works and why you should engage with one.

All pension scheme members should be made aware of the MaPS and other Dashboards once they are available.

However, see also our answer to question 4. If members of the public are not aware that they have a 'problem', why would they go looking for a 'solution'? Consequently, the importance of engaging with MaPS, Dashboards, AE "encouraged" and other pension provision, should be the subject of a sustained and high-profile Government education campaign.

Furthermore, a fresh look at the woeful lack of financial preparedness with which our young people leave school, owing to the make-up of the education curriculum, should be regarded as a failing on the part of successive Governments which should not be allowed to fail further generations of our youngsters.

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

We think it depends on what enhanced guidance and/or limited advice is envisaged.

One of the challenges related to advice is what we see as the Regulator's (FCA) desire to have consumers provided with what we would describe as 'perfect' advice. The professional service of giving regulated advice requires a deep dive into a person's time and finances. As described above it is also expensive.

We would be concerned that anything that represents enhanced guidance or limited advice will end up being complex given the lack of appetite we perceive on the part of the Regulator, in fairness driven in part by the media.

We would have a general concern about a Public Body offering regulated advice.

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

Yes, but only to a limited extent.

The key successes of the AE policy are –

- Enrolling (eligible) people without their say leaving them to take positive (or negative!) action to opt-out
- The provision of a default strategy for investment that allows non-expert (so almost everyone) pension savers to have confidence that an expert has made a key decision on their behalf
- A minimum contribution level

So how could this be translated to work in respect of retirement options?

1. There could be a default investment strategy (and pathways go some way towards this). This could potentially cover the quasi-compulsion and investment choice points above

2. The minimum level point is really turned into a 'maximum' (drawdown) level in the sense that the goal is to ensure individuals don't run out of funds

Whilst these are reasonable parallels, we refer again to our education points made in answer to previous questions (and Q8 below). Our suggestions here should not be seen as a panacea.

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

We assume this question is about the drawdown and wider options that are available. The key thing is to ensure that members understand how ***not to*** run out of funds too early on in their retirement. It is also essential that in considering this they understand what could be the costs of any potential care requirements.
To achieve this, members of the public approaching and in retirement have to consider matters such as –

- Income requirements in retirement (and if care is required)
- Product lock-ins and guarantees (eg annuities)
- Likely investment returns for different assets
- The volatility associated with such assets
- Their life expectancy (often underestimated)

See our earlier comments about education. We wonder how many people, in reality, are equipped to make the necessary judgements.

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

Trust-based schemes have generally been behind contract-based schemes in providing drawdown options (our own master trust and some others are exceptions).

We would refer to our answer to the previous question in terms of the effectiveness of the communication.

10. Can the issues around small pension pots be solved through behavioural changes by savers?

No.

For all the reasons we have articulated earlier in this response to the Work & Pension Committee's (very welcome) Call for Evidence we believe not, without the development of an overarching strategy which tackles the root causes of under-provision for later life.

The motivation for pension savers to track their pension pots related to previous employments and to combine those pots is low given the cultural and structural challenges we have outlined. Furthermore, the cost of moving small pots around without important changes to the operation of such action would be prohibitive and could damage the financial sustainability of the very master trusts that are doing the 'heavy-lifting' when it comes to supporting AE policy and providing pension services for those previously excluded from pension saving.

Unless small pots are able to be moved around – automatically – and – systematically – this will be a challenge too far. By automatically, we mean that member consent should not be sought, the deferred pot should simply be moved, neither should trustee consent be required. By, systematically, we mean that an industry-wide system to move the pots physically should be designed in order to ensure that costs associated with making such transfers of very small amounts of money, are minimal.

It is already the case that the General and Fraud levies are greater than the income providers (in a price capped environment) receive from the smallest pots. Consequently, trustees are having to sign off cross subsidies amongst pension scheme members that are, in our view, at the limit of where they should be.

However, there is light at the end of the tunnel. If dashboards can be made to work, to be popular and above all ***used*** by the public there is an opportunity to have them engage, understand their various pension pots from different employments and make moves to combine them.

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