

Written evidence from XPS Pensions Group (APS0046)

We continue to be extremely supportive of the inquiry and believe there is more that can, and should, be done by the pensions industry, supported by appropriate legislation, to protect members from pension scams and poor retirement outcomes.

We remain passionate about improving outcomes for members and, as such, felt compelled to submit our response. This submission focusses on our views around individuals taking guidance and advice on their retirement options.

About XPS

XPS Pensions Group (XPS) is a UK specialist in pensions actuarial, investment consultancy and administration. We provide a wide range of advisory and compliance services to 1,500 pension scheme clients and administer the benefits of nearly one million members. XPS is listed on the London Stock Exchange.

In 2015, XPS put in place a service to help clients to protect their members from pension scams. For the last three years we have also been monitoring the outcomes of transfers from defined benefit pension schemes.

Our submission

We know that 11.9 million individuals in the UK were of State Pension Age or older in 2020. By 2030, this will have increased to 13.4 million, and by 2040, it will be around 15.6 million¹. These are huge numbers of individuals trying to plan a successful retirement and understand their options, often across multiple pension pots.

Pensions are complex and there is a general lack of understanding amongst the UK population – the recent financial lives survey from the Financial Conduct Authority (FCA), published in February 2021, revealed that understanding of Defined Contribution (DC) pensions is poor, with 55%² of people displaying low or very low engagement levels. This lack of understanding leaves members at risk of poor decisions or, at worst, of falling victim to a scam.

On top of this, many individuals are vulnerable. 46%³ of UK adults exhibit one or more signs of vulnerability, which in this context is defined as "somebody who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care". These are the people who need help the most. Our scam protection service, who speak to members of Defined Benefit (DB) pension schemes at the point of transfer, spotted red flag warning signs that could indicate a pension scam in 49% of cases reviewed in 2020. Many of these individuals displayed signs of vulnerability.

We know the devastating impact that poor decisions can have on individuals from the research that we do in this area. Our annual member outcomes surveys continue to show that Self-Invested Personal Pensions (SIPPs) dominate the market for transfers from DB schemes. Whilst there are many good SIPP products available, we are concerned that many of these have more functionality (and higher charges) than members need. Our analysis shows that investing in a lower cost vehicle could provide a further 8 years' worth of pension for the average member utilising the pension freedoms⁴.

Further details on the results of our annual member outcomes survey are shown in the table below. The 2021 edition of our survey is due to be published in July 2021 and will be shared with the committee when available.

¹ Pensions Policy Institute, projected number of people in the UK of SPA (<https://www.pensionspolicyinstitute.org.uk/sponsor-research/pension-facts/table-1/>), taken from ONS 2018-based principal projections for the UK

² FCA Financial Lives 2020 survey, February 2021 (<https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf>)

³ FCA Financial Lives 2020 survey, February 2021 (<https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf>)

⁴ 2020 XPS survey of Member outcomes under freedom and choice (https://www.xpsgroup.com/media/2917/xps-member-outcomes-survey_july-2020.pdf)

Results of the XPS annual member outcomes survey	2018 ⁵	2019 ⁶	2020 ⁷
Transfers analysed:			
- Number	6,000	1,800	2,200
- Amount	£1.4bn	£500m	£637m
Breakdown of transfer destination:			
- Platform SIPP	86%	90%	91%
- Full SIPP	9%	9%	7%
- Other (including workplace arrangements)	5%	1%	2%

It is clear that many individuals need help in deciding the best course of action for them. However, only a relatively small proportion of retirees seek guidance or advice – just 200,000 used the Government’s PensionsWise guidance service in 2019/20⁸, a small proportion of those with DC pension pots reaching retirement age. However, those who have received regulated financial advice are more engaged and have a better understanding of their pension than those who have not.⁹

There is no one service or product that will provide a solution for each individual and improving retirement outcomes and protecting pension savers requires a co-ordinated and combined approach. There is an important role to play for employers, trustees and pension schemes as well as financial advisors and the Government.

We firmly believe that employers and the trustees of occupational pension schemes have a crucial role in improving retirement outcomes. Employers and trustees are often best placed to provide support to members in a cost-efficient manner. Many members may not be aware of the support that is available to them, or where to look to find it, so even signposting members to where they can find suitable advice would be beneficial. In addition, employers and former employers are usually highly trusted by individuals (with employer communications being the most trusted form of media¹⁰), meaning that any additional retirement support is more likely to be effective.

Pleasingly, nearly half of our clients surveyed have already taken steps to improve support for members. This has increased by over 15% in the past 12 months, driven by the desire from schemes and employers to help improve member outcomes¹¹. However, there are still some barriers to providing this support and this is holding back many schemes and employers. The recent joint guide from the Pensions Regulator (tPR) and the FCA is helpful in clarifying where the FCA-regulated boundary lies for those looking to do more. We would now like to see the removal of further barriers to enable pension schemes to improve the level of support they can provide. In particular, we would welcome:

1. Changes/clarifications to taxation legislation to facilitate individual support to members from employers and trustees, including:

⁵ 2018 XPS survey of Member outcomes under freedom and choice (https://www.xpsgroup.com/media/1336/1807001_member-outcomes-under-freedom-and-choice-report-july-2018.pdf)

⁶ 2019 XPS survey of Member outcomes under freedom and choice (https://www.xpsgroup.com/media/1999/xps-pensions-group_member-outcomes-report_may-2019.pdf)

⁷ 2020 XPS survey of Member outcomes under freedom and choice (https://www.xpsgroup.com/media/2917/xps-member-outcomes-survey_july-2020.pdf)

⁸ Pension Wise Service evaluation, September 2020 (<https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf>)

⁹ FCA Financial Lives 2020 survey, February 2021 (<https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf>)

¹⁰ Edelman Barometer Trust 2021 report (<https://www.edelman.com/sites/g/files/aatuss191/files/2021-01/2021-edelman-trust-barometer.pdf>)

¹¹ Preliminary results of XPS client survey, May 2021

- a. Clarification that payments from an occupational pension scheme to improve support for members, including payments to financial advisors supporting members with a retirement decision, does not constitute an unauthorised payment; and
 - b. Complete removal of the benefit-in-kind tax on employees where an employer is funding individual retirement advice.
2. Clear guidance for trustees and employers who want to make a low-cost receiving vehicle (e.g. a DC Master Trust) available to members considering a transfer, on what information can and cannot be provided. Providing access to such a vehicle can have significant benefits due to the low charges and high standards of governance but many employers and trustees are concerned about straying into FCA-regulated advice territory.
3. An easing of the restrictions on providing modellers to members, which were recently clarified by the FCA/tPR joint guide for employers and trustees. In our experience, modellers can be an important tool in driving up engagement and understanding amongst the membership, leading to better member outcomes. Providing these tools through the pension scheme ensures that the model is robust, rather than taking the risk of leaving members to find (and correctly populate) their own model online.
4. Examples of best-practice support for members across the pensions industry. This would demonstrate to trustees and employers what is possible and help to drive up standards across the industry. We would be happy to contribute to these examples.

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