Written evidence from BW SIPP LLP (APS0056)

Introduction

Barnett Waddingham LLP is an independent UK professional services consultancy.

Our work includes a range of actuarial, administration, investment and consultancy services to trustees and sponsoring employers of occupational pension schemes. The firm was founded in 1989 and is wholly owned and managed by its 82 partners with eight offices in the UK.

BW SIPP LLP, on whose behalf we are writing, is a wholly owned subsidiary of Barnett Waddingham and acts as operator, professional trustee and/or scheme administrator to almost 50,000 SIPP customers.

In this Paper, we outline our responses on behalf of BW SIPP LLP, to the ten questions included as part of your inquiry that is looking at how savers are prepared and protected to move from saving for retirement, to using their pension savings.

We would be happy to elaborate further on any of our responses below, either directly with the Chair and/or with other members of the WPC.

Question Responses

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?**

   Yes – albeit a limited range of pension options at present. Provider innovation is often frustrated by the time and cost implications of an ever-changing regulatory system. In terms of changing needs over time, risk can be balanced out by a gradual move from drawdown to annuities, but funding for the costs associated with long-term care remains of genuine concern.

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

   There is definitely something to learn from overseas pension models; particularly where there is a mechanism for insuring against unexpected longevity, and long-term care costs (see above). The decade following 'A-Day' in 2006 saw the importation of 'guaranteed drawdown' products from American organisations including MetLife, which sought to protect retirement income levels from stock market falls, over time. However, they largely failed to gain traction with the public, (because of long-term low interest rates and the costs associated with the underlying guarantees), and the various products were gradually withdrawn from the UK marketplace.

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

   As explained in our response to question 2, the underlying economic situation in the UK with long-term historically-low interest rates, means that 'guaranteed', or insurance-related pension products cannot be offered at a low enough cost to compete, particularly where the focus is on price, rather than value/return.

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

It is hard to argue anything other than "no" here.

Take-up of Pension Wise remains very low. The latest consultation by the Financial Conduct Authority to compel providers to book Pension Wise appointments for their members is not only impractical, but is essentially providing members with the wrong message at the wrong time.

An alternative way forward is to make Pension Wise appointments mandatory when an individual attains age 50 (to tie in with receipt of their "wake-up" pack(s) from their pension provider(s)), but with an opt-out facility as with auto-enrolment. A potential phrase for this initiative could be "auto-guidance".

Tools and software to help customers make informed decisions are desirable, but are costly to provide and maintain.

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

Via their imminent "MoneyHelper" consumer-facing initiative, there would be merit in MaPS organising an opt-out approach via a non-commercial Pension Dashboard, where all members are automatically signed up for an appointment with Pension Wise as they reach their fifties.

However, it is more of a challenge around logistics. Members may have pensions with multiple providers, all with different retirement dates. Clearly, we won't want all providers to try and book appointments for the same member, so there would need to be some form of centralised operation to achieve this, potentially administered by MaPS, rather than put the responsibility on each pension provider to arrange.

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

The threshold for access to regulated financial advice continues to rise. It is common for advisers to need clients to hold over £100k or £250k of investable assets, so availability isn't just about the 'cost' of advice.

Limited advice, delivered via 'Robo-channels' should be more cost-effective for customers with lower investable assets, who are looking for straightforward pension planning. However, take up of 'Robo-advice' amongst consumers remains low. There is a potential demographic point here that younger savers are more engaged with digital propositions, but also expect them to be free to use. By contrast, older clients may be more inclined to pay for advice, but less likely to engage with a digital proposition.

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

Not in their current form.

The accumulation of a pension fund is much simpler. The aim is to get people paying something in, get it invested with some exposure to equities, in order to give better returns than cash over the longer term.

For retirement (or decumulation), however, there are too many variables.

We currently have four investment pathways, but we really need five. The pensions industry fed back to the Financial Conduct Authority that a large proportion of drawdown customers take their tax-free cash sum, and leave the remaining drawdown fund invested without any plans to take an ongoing income, but accepting that they may need to 'dip into' their fund on an ad hoc basis, should the need arise in the future. At present, there is no discrete pathway for this option.

There is also no ability with the pathway framework to tailor the investment to even a basic attitude to risk/capacity for loss. If a customer chooses a pathway option for 'taking a long term income', there is no option to vary the underlying investment portfolio, based on the level of income the customer wants to take, (for example, somebody taking a very low income from a large fund, compared to a large income from a moderate fund).

The system is in need of an overhaul, and in its current format has huge potential for mis-selling issues.

In the SIPP market, we see customers who are investing their drawdown fund for specific future tax liabilities, as well as those planning for their pot to ultimately become an income for their beneficiaries. Strategies such as these should arguably be outside of the scope of investment pathways.

There is too much complexity surrounding the Lifetime Allowance (LTA) as well, and how benefits are taken could impact on the overall tax-efficiency (for example, as a lump sum, or as pension income). Scrapping the LTA for DC pensions (but retaining it for DB pensions) would massively simplify the retirement journey for consumers. Instead, retain the Annual Allowance, and stop looking to tax investment growth through what has become, to all intents and purposes, a stealth tax.

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

Firstly, whether the income is guaranteed and, if so, the nature of those guarantees.

Secondly, when the pension fund might reasonably be exhausted, based on the income amounts taken, and the frequency of withdrawals.

A significant issue here is that individuals have a very limited understanding of longevity. If they can't reasonably get a view on how long they're likely to live, it is hard to plan retirement income strategies.

Finally, and as eluded to above, there are significant uncertainties over long-term care costs.

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

Currently, there is too much jargon and too much complexity for a majority of pension scheme members.

Attempts to communicate pensions in 'plain English' has produced some very poor outcomes. For example, why describe an annuity as a "long term guaranteed income" product, when mortgages are not described as a "long term borrowing money to fund a property purchase" product?

Instead, we should talk about customer need in plain English, but be consistent in our use of drawdown and annuity. Even if drawdown is described as "a flexible income", the underlying complexity of pensions means that you still have to try to explain what is meant by "drawdown", "benefit crystallisation events", "lifetime allowance" etc.

As our response to question 7 demonstrates, we do not have "pensions simplification" – despite the aims underpinning "A-Day".

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

Potentially.

With any behavioural approach, it must be easier to do something than to do nothing, for it to succeed.

For small pension pots, employees joining a new company and then being auto-enrolled into their new employer's workplace pension scheme could have the pension built up with their previous employer automatically transferred over. It would be a burden on the new employer to arrange this, but it would mean that no 'small pots' would be left behind.

However, automatic transfers and consolidation would not guarantee good outcomes for individuals, as the transfer to the new pension might mean they incur higher charges, worse investment returns, etc.

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