Written evidence from the Legal & General (PSL0038)

About Legal & General

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with international businesses in the US, Europe, Middle East and Asia. With almost £1.3 trillion in total assets under management as at 30 June 2021, we are the UK's largest investment manager for corporate pension schemes and a UK market leader in pension risk transfer, alternative asset origination, life insurance, workplace pensions and retirement income. Through inclusive capitalism, we aim to build a better society by investing in long-term assets that benefit everyone.

1. **Do households in the UK have adequate pension savings for retirement?**

   There is an extensive amount of published research which highlights that many UK households do not have adequate pension savings for retirement.

   The Pensions Policy Institute notes[1] that the UK is currently on course for a quarter of people approaching retirement unlikely to receive a minimum income, with nearly half failing to meet a personally acceptable level in retirement. Of the 11 million people in the UK between age 50 and State Pension age:

   - Around 3 million will not receive a minimum income
   - Around 5 million will not receive a personally acceptable income
   - Around 10 million will not receive a comfortable income

   Research[2] by the Pensions and Lifetime Savings Association states that a contribution rate of 8% of band earnings will result in many retirees unlikely to meet a Target Replacement Rate (TRR). The degree to which savers are on track to meet their TRR differs by generation: Around 39% of working Millennials, 51% of Gen X and 45% of Baby Boomers are more likely than not to reach their TRR. This shows that more than half are less likely to reach it.

2. **Are changes needed to auto-enrolment to provide an adequate level of pension savings for retirement?**

   We agree that changes are required to auto-enrolment policy to improve the adequacy of pension savings. We support and agree with the proposals that were originally set out by the DWP in their 2017 review Maintaining the Momentum, and more recently the Pensions (Extension of Automatic Enrolment) Bill tabled by Richard Holden MP.

   Reducing the eligibility age to 18 will ensure people can benefit from pension savings as early as possible rather than missing out of potentially four years' worth of contributions under the current system.

   Removing the lower qualifying earnings limit will ensure that pension contributions are based on the first £1 of earnings.

   We are also supportive of measures to address the concern that people in part-time or multiple jobs are being excluded, where earnings from those jobs individually are below the current £10,000 eligibility trigger. As our research shows in our response to question 9, there is a higher proportion of women compared to men working part-time so this issue is currently contributing towards the gender pension gap.

   We are also supportive of proposals put forward by the PLSA and TISA to increase minimum contributions to 12% over a phased period of six years and recommend that the government sets out steps to achieve this as soon as possible.

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[1] PPI Paper What is an adequate retirement income, June 2021
[2] PLSA Hitting the Target. A vision for retirement adequacy, July 2018

Alongside this, we also recommend that there should be an equal commitment from employers and employees, with each paying 6% of salary at the end of the phasing period. Previous research on value for money commissioned by Independent Governance Committees and carried out by NMG consulting in 2017 found that members place high regard to employers who contribute at least as much as them. The research from the trade bodies linked above provides more insight into potential employer appetite, and those that are already paying more than the current minimum rates.

	Employer	Employee	Total
Now	3%	5%	8%
Year 1	3.5%	5%	8.5%
Year 2	4%	5%	9%
Year 3	4.5%	5%	9.5%
Year 4	5%	5%	10%
Year 5	5.5%	5.5%	11%
Year 6	6%	6%	12%

A further point for consideration should be whether employer contributions are still required even if an employee opts out of paying personal contributions. However, we recognise that this could encourage opt outs so further behavioural research would need to be undertaken to understand the wider impact.

3. What advice and guidance do people need when saving for retirement?

As a general principle, people need to understand what their future income needs in retirement are likely to be, and guidance on how they can achieve that. This would also include advice and guidance on debt management as well as on when and how much to save.

Educating people early on the importance of saving is also important. Financial wellbeing is gradually becoming more integrated into the school curriculum and opinions of short and long-term savings can be shaped at an early stage. Understanding the principles of saving before someone starts up a pension is an important foundation to build on.

The impact of life events can also have a profound impact. Changing working patterns and the trend among younger generations to have multiple jobs is another area for consideration. Other significant financial events would also have an impact such as house purchase, repaying student debt, divorce, inheritance and having to provide care (both time and financial support) to other family members.

When considering how much to save, many of the tools and calculators available are based on traditional working patterns that are not reflective of today's society. They tend to assume a consistent period of employment and do not take account of the life events referred to above and the fact that there will be periods of time spent unemployed. Career breaks for other reasons should be considered, and the impact of people moving between full and part time working.

Providing personalised guidance is important. We are encouraged by the recommendation set out in your report on the second part of this inquiry that the FCA should use new definitions of Enhanced Guidance and Limited Advice. As well as benefitting savers who are accessing their pension, this will also allow providers to give greater support during the accumulation stage.

This could also encourage savers to consider their finances in a more holistic way, not just focusing on pensions but other forms of saving and how those meet both long and short-term goals.

For providers (and employers) that do not have the resources to provide appropriate support to members, the Money and Pensions Service/Money Helper could provide guidance at earlier life stages in a similar way that Pension Wise caters for the over 50s.

This could include easily accessible guidance on rules of thumb for adequate contributions, calculators, promotion of information such as the PLSA Retirement Living Standards, guidance on returning to work after a career break/parental leave and the implications of other relevant life events.

Employers could be required to give new employees information and signposting to MaPS at the point they start working or included as a statutory requirement in enrolment communications.

4. Could retirement income targets help savers plan for retirement?

We are fully supportive of the benefits that retirement income targets bring to savers to help them plan for retirement and are one of the 'Friends of the Retirement Living Standards' developed by the PLSA.

We have embedded the standards into our member communications, including interactive video benefit statements, planning tools and educational videos.

We have run a number of engagement campaigns with the co-operation of employers which have been very successful. Some of the highlights were:

- One scheme had an engagement rate of 81% (opening the email), with most achieving over 50%.
- 95-99% of those watched the interactive video, which referenced the retirement living standards and illustrated the impact that an increase in contributions could make to their estimated retirement income.
- All those who watched the video went on to access our retirement planner
- A campaign with one particular employer running concurrently with a drive to increase online engagement increased member pots by 13.9%.

Having a target to aim for is an essential part of retirement planning.

5. Apart from increasing contributions, how can the Government improve outcomes for savers?

In addition to addressing the boundary between advice and guidance, a further challenge that pension providers face is their ability to issue 'marketing' communications to their members. The nature of auto-enrolment combined with Data Protection legislation makes it difficult to obtain permission to be able to issue certain communications that are designed to promote tools and services that could improve engagement and generate better outcomes.

A further constraint to engagement is the inability for providers to obtain member email addresses when they are auto-enrolled. The government should consider making this a mandatory piece of information that employers have to provide to the scheme as part of the 'jobholder information' required by regulation[3].

Technically, inviting members to save more can be viewed as a financial promotion. There is limited scope for employers to promote FCA regulated products beyond giving basic information about their chosen workplace scheme. We recommend that the government and regulators review this at the same time as reviewing the advice and guidance boundary to provide more flexibility for providers and employers to be able to support savers.

The government should also consider national advertising campaigns and making further investment into the school curriculum all through Pension Awareness Day and beyond so that

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[3] This information is currently voluntary under regulation 3, The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010

awareness of saving, compound interest and general financial wellbeing are engrained and reiterated.

A further area that needs to be addressed is the inconsistency in the regulatory approach for occupational and personal pensions. In our experience, members of workplace pension schemes do not understand the differences between the different scheme types. They have been enrolled into a pension scheme chosen by their employer.

Again, we are encouraged by your recommendation that all future regulatory consultations should be run jointly between the FCA and TPR, but we feel that a full review of existing inconsistencies is also required. This is not just a matter for savers accessing their pots, but also impacts the information provided during the accumulation stage.

An important next step would be to conduct a comprehensive review of all current communication and disclosure regulations, understand why those differences have arisen over time and carry out a structured programme of research with savers to determine what works best to improve outcomes and reduce the risk of harm.

In the latter case, this risk should take into consideration the level of governance in place – for example, occupational and workplace personal pensions have either a trustee or IGC in place to ensure the schemes are run in the best interests of members and that they receive value for money. Individual personal pension schemes do not. Trustees can make changes in members' interests without member consent whereas personal pension providers generally cannot.

The key questions we believe should be answered by government and regulators are:

- Should the regulatory disclosure requirements for workplace personal pensions be the same as non-workplace schemes that a consumer has chosen themselves?
- Why are personal pension schemes required to provide illustrations, but occupational schemes are not? Do such illustrations for workplace personal pensions add value, and does this differ at key points in the journey?
- Is the information contained within the various documents adding value? What can be added or removed?
- What benefits do the enhanced governance of trustees and IGCs bring to savers, and how should this influence the regulatory disclosure framework?
- Should all occupational schemes be treated the same, given the increase in Mastertrust membership?
- How should the regulations be adapted to recognise the importance that digital communications have on improving saver engagement?

6. Can pension providers change the design of pension products to improve outcomes for savers?

All pension providers should be looking to drive forward improvements in member engagement. The success of auto-enrolment is based on inertia and this creates a risk of widespread disengagement and a lack of planning for later life.

Providers should make available tools, guidance and appropriate educational material, delivered via multiple channels, to equip savers in making better informed decisions on how much they should be saving and whether they are making the right investment choices. Utilising retirement income targets such as the PLSA's Retirement Living Standards is key to driving up engagement, as highlighted above in question 4.

It should also be easy for savers to change their contributions. Employers need to play their part here too as in most instances, changing contributions into a workplace pension would have to be facilitated by the employer but providers shouldn't put additional barriers in place.

However, equally important is the need for default arrangements within auto-enrolment schemes to be well designed and governed appropriately in order to achieve the best outcomes for savers. It would be unrealistic to expect all pension savers to be making their own investment decisions

7. What should the Government be doing to support self-employed people to save for retirement?

We have not carried out our own research in this area but would be supportive of a self-employed version of auto-enrolment to avoid a 'have and have not' society in later years.

8. Are different or additional measures required to help gig economy workers save for retirement?

Not responding to this question.

9. Are there measures which the Government should consider to close the gender pension gap?

The evidence highlighting the gender pensions gap is well documented and addressing this is a key focus area for Legal & General. In 2021 we undertook a programme of research using data from our scheme membership of approximately 4 million people which highlighted that:

- The gap increases from 17% at the beginning of women's careers to 56% by the time of retirement
- The average pension pot of a woman at retirement (£10,000) is less than half that of a man (£21,000)
- The difference in the size of pot influences the choices made at retirement. 92% of women choose to cash in their pot compared to 86% of men, with only 7% of women taking drawdown compared to 12% of men.
- Even in industries where women are more heavily represented, such as Senior Care where 85% of scheme members are women, their average pot size is 47% smaller than the average for men.

Our investigations found that the main factors behind the gap include:

- Lower salaries – the gender pay gap is 15.4%[4]
- More women take career breaks due to caring responsibilities
- 41% of women are in part-time work compared to 13% of men[5]
- 23% of women are ineligible for auto-enrolment as they earn less than £10,000[6]
- Unaffordable childcare – UK families spend 1/3 of their household income compared to the OECD average of 13%[7]
- Lower financial confidence in women – 52% say they are confident in managing investments compared to 68% of men[8]
- 28% of women versus 19% of men waive their rights to a partner's pension on divorce[9]
- State benefits discourage low income workers from full time work
- 1 million women retire early due to the symptoms associated with Menopause[10]

It is our view that addressing the gap is a collective responsibility. Employers, pension providers and scheme members themselves can all take steps to help close the gap and address the inadequacy of savings.

From the government's perspective, we have identified a number of policy and legislative changes that could be considered:

[4] Office for National Statistics (ONS), 2021: Gender pay gap amongst all employees in the UK
[5] ONS UK Labour Market bulletin Q4 2020
[6] Mercer Australia Gender differences in pension outcomes, 2021: 23% of women and 13% of men employed in the UK do not meet the minimum income requirement
[7] OECD, 2016: Families in UK spend 1/3 of household income on childcare, compared to OECD average of 13%
[8] Merrill Lynch and Age Wave study, 2018
[9] LGIM 01/2021 press release; Women are significantly more likely to waive their rights to a partner's pension as part of their divorce (28% women vs 19% men)
[10] Daily Mail 12/2021: Andy Briggs, Business Champion for Older Workers, said that almost one million women have left employment because of the menopause.

(a) **Auto-Enrolment reform** – already covered in our response to question 2 – not only will those changes increase coverage and improve the adequacy of saving, but they will also address some of the factors that contribute to the gender pensions gap, specifically broadening eligibility to people, mostly women, in part time and/or multiple jobs and removing the lower qualifying earnings limit.

(b) **Review tax relief** to assess whether the system is working fairly for all. For example, should the current tax-relief limit of £3,600 a year for people without relevant UK earnings be increased to incentivise non-working parents to contribute more?

(c) On a similar vein to point (b), **allow greater flexibility for couples to pay into each other's pensions**, increasing the maximum allowed and promoting the possibility.

(d) **Promote the inclusion of pensions in divorce proceedings**. Legislation already allows for the majority of pension benefits to be shareable, but the courts and solicitors should consider this in the context of the gender pensions gap and the impact on the divorcing parties' long-term savings and retirement outcome.

(e) Make **shared parental leave** more attractive

(f) **Encourage the industry to design default funds better suited to women**, to reflect periods of time with career breaks and lower contributions.

(g) **Prioritise the provision of suitable and affordable childcare** to encourage women to work more hours

(h) **Encourage pay and job progression for part-time workers** and examine whether eligibility to means-tested benefits acts as a barrier to women seeking to increase their income and savings ability.

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