“TTF Response to the Work & Pensions Select Committee’s Consultation on Pension Freedoms”

Submission by the Transparency Task Force, May 12th 2021

About the Transparency Task Force

The Transparency Task Force is a Certified Social Enterprise, meaning that we exist to make an impact, not profit.

The mission of the Transparency Task Force is to promote ongoing reform of the financial sector, so that it serves society better. Our vision is to build a large, influential and highly respected international institution that helps to ensure consumers are treated fairly by the financial sector.

The primary beneficiaries of our work will be consumers; but the sector itself will also benefit through improved market conduct and increased trust in the services it provides.

Our objective is to carry out a broad range of activities that help to drive positive, progressive and purposeful finance reform, such as:

- Building a collaborative, campaigning community; the larger it is the more influence it can have in driving the change that is needed
- Raising awareness of issues; so that society better understands the problems that exist in the financial sector and how they can be dealt with
- Engaging with people who can make change happen; because through such dialogue we can influence thinking, policy making and market conduct

Much of our focus is on rebuilding trustworthiness and confidence in financial services. To make this possible we are busy developing a framework for finance reform which we describe as a "whole system solution for a whole-system problem" as described in our recently published book

Our response to you has been produced by a highly collaborative group of TTF volunteers, our "Response Squad," working together to build consensus, whilst always remaining true to our "North Star" question: "What is best for the consumer?"

For further information about the Transparency Task Force see:
http://www.transparencytaskforce.org

Executive summary

Introduction

When consumers access their pension savings, they're making important long-term financial decisions which have profound consequences and are often irreversible. Some consumers will benefit from regulated financial advice. But many, so-called 'non-advised' consumers, are effectively making the decisions themselves. Most are ill-equipped to make such complex financial decisions. Evidence is already indicating, for example, that many people are taking income at levels which are not sustainable. The perils of doing this might not come to light for very many years – when an individual's pension pot has dwindled to nothing – by which time it is too late.

It is imperative that consumers are provided with appropriate support during the decision-making process. Failing to do so is storing up potentially significant and systemic issues for the future.

When George Osbourne announced Pension Freedoms, he stated "everyone who retires on these defined contribution pensions will be offered free, impartial, face-to-face advice on how to get the most from the choices they will now have..." and often referred to this service as a 'guidance guarantee'. Presently, we believe that take-up of the offered service (Pension Wise) falls far short of most people's expectations and the service, as it is being offered today, does not go far enough to effectively support consumers in being able to "get the most from the choices".

Ensuring that the product is right for the consumer

When taking regular pension income, consumers currently have the choice between an annuity (a guaranteed income for life) and 'drawdown' (where the outcome for the consumer is dependent upon how their underlying investments perform). Some product providers are using illustrative rates for drawdown which appear unsustainable in the current economic environment. Such product bias – favouring drawdown over annuities – is not in the interest of the consumer.

Consumers receiving means-tested benefits may have them reduced, often severely, in different ways depending on how they make use of their pension savings. Annuities, or regular drawdown, will reduce the benefits penny for penny, while capital drawdown may have no effect, depending on the level of income taken and the individual's personal circumstances.

We believe it would be beneficial to consumers if product providers were able to bring to market a 'deferred annuity'. Such a product would guarantee an income starting at some point in the future. There are barriers to the introduction of such a product but we would encourage that they be fully explored to see if they can be overcome in the interest of the consumer.

Ensuring that the consumer is making the right decision for them

In the first instance, consumers must have access to appropriate support. While some of this can come from product providers, it is imperative that the impartial Pension Wise service is more fully utilised by consumers. We are very supportive of efforts to ensure this happens in practice.

Secondly, the service must meet the needs of consumers. Evidence shows that consumers do not want to be told 'on the one hand this, on the other hand, that' – they want a clear steer that gives them the reassurance that the decision they are making is right for them. It is imperative therefore that the boundary between 'guidance' and 'advice' is more fully explored so that the support provided to consumers is more helpful to them.

Ensuring that communications enable consumers to understand the risks

With the prevalence today of non-advised drawdown, the introduction of investment pathways by the FCA is welcomed as a positive step in the right direction as it focuses on the outcomes consumers are seeking when accessing their pension savings. The FCA's expectation is also that the risks to non-advised consumers of their chosen option are clearly communicated.

We believe that there is a real danger that non-advised consumers struggle to understand the difference between 'appetite for risk' and 'capacity for loss'.

The initial evidence though indicates that product providers' current communications attempts are wide of the mark. The FCA has committed to a review of the implementation of investment pathways in 2022 and we look forward to seeing their findings.

Pensions Commission

Over the years it has been suggested from many quarters that a permanent independent Pension Commission should be established. This way there would be some continuity and independence to pension policy, in particular by taking much of the politics out of the decision-making. We believe such an idea certainly has some merit.

Announced in 2002, and with reports produced in the period 2004 to 2006, the Pension Commission chaired by Adair Turner was hugely influential in paving the way for future pension policy. The pensions landscape has moved on significantly since then – the inexorable shift of responsibility from institutions to individuals, the introduction of the Pension Freedoms and of course, the recent Pensions Act bill.

Following our written responses to the questions below, we have provided a brief conclusion which includes a list of the key points within our response.

Question 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?

For the most part, it is our opinion that there are a wide range of pension options available. However, for 'non-advised' consumers, we wonder if enough attention is being given to the possibility of two or products being used at the same time (such as an annuity and drawdown). Current retirees may be achieving a mix of secure and flexible income through having a defined benefit pension and a defined contribution pension, however, as time passes, a greater number of consumers will rely mainly on their defined contribution pension as their main source of pension income. As such, we believe it would be prudent that greater time and attention is given when describing the benefits of potentially using a combination of products. At present, this option of 'blending' products feels like an afterthought.

One potential pension option currently missing might be a deferred annuity.

Concerning the 'access' part of this question, there are some potential barriers, these include;

The use of complex language or industry specific terminology

This is a widely accepted problem and some organisations have taken great steps in this area. However, large discrepancies exist between product names, the description of the product and the options available.

If Pension Freedoms was designed to help open up choice and options, the language and communication used should follow suit because presently inconsistency in wording and language used within descriptions and terminology being used will restrict and exclude, making it a barrier to potentially relevant pension options to many.

The above presents a vast but not insurmountable challenge. One possible solution may come from Pension Wise (soon to become Money Helper). Most, if not all pension option organisations make reference or direct consumers to Pension Wise as a source of unbiased information. As a result, there is an opportunity for Pension Wise to take the lead in this area.

Advised only products

To be clear, it is not our intention to make any comments or suggestions concerning what products should be sold on an advised only basis.

We are unsure where 'the line' gets drawn and how often the criteria are reviewed? Some with-profit income funds with built-in 'floors' are only accessible through the advice-only channel but since Pension Freedoms, some SIPPS and flexible-access drawdown can be purchased on an execution-only or non-advised basis.

Either way, advised only products are an access barrier, at least for some.

Changing needs and later life – Loss of capacity, the LPA regime and risk of financial abuse.

The introduction of flexible drawdown has created a risk for consumers that find themselves in vulnerable circumstances that did not previously exist under the capped drawdown or annuity regime. Namely, that you can now empty the pension in a single transaction if you so wish.

A cohort of people aged 65 in 2015 and accessing flexible drawdown are now aged 71. Cognitive impairment will be relatively rare in this cohort, but between the ages of 75 and 83 incidence of cognitive impairment will increase substantially. This coincides with a massive rise in the numbers of Lasting Powers of Attorney for Financial Decisions (LPAs) in circulation (registered LPAs now in excess of 4 Million).

Most LPAs do not contain supervision or safeguarding clauses, even ones professionally drafted. The prescribed form even contains a soft warning discouraging inclusion of restrictions:

> **Instructions**
>
> Your attorneys will have to follow your instructions exactly. For examples of instructions, see the Guide, part A7.
>
> **Be careful** – if you give instructions that are not legally correct they would have to be removed before your LPA could be registered.
>
> If you want to give instructions, you may want to take legal advice.

Under an annuity or capped drawdown product, it was possible for the pension income payments to be stolen in isolation or over a period of time. However, under flexible drawdown, the whole pot can be emptied in a single transaction, resulting in the potential loss of the entire pension fund. The incentive for financial abuse, fraud & scams has therefore dramatically increased (there is a larger accessible source of wealth to target), the consequences for the victim can be disastrous (loss of capital and future income) but there has not been a commensurate increase in the protective measures to safeguard consumers or warn them of this risk.

If we have concerns that consumers do not have access to good advice or guidance at the point of retirement, this is also true for consumers lacking mental capacity to manage their finances. Attorneys require all the financial education that donors required when they made their original decisions.

In practice, the vast majority of LPAs are largely unsupervised, the Office of the Public Guardian in theory has the ability to investigate, but only where concerns are raised. A lack of transparency around LPAs prevents concerns from being raised in the first place.

We believe that a combination of:

Highly accessible wealth + Vulnerability + Lack of transparency = Risk of financial abuse.

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

Deferred annuity offerings are not currently offered in the UK, however, they are available in many countries outside of the UK including Australia, Canada, Chile, Denmark, Singapore and the USA.

A deferred annuity may provide a sort of 'safety net' for consumers in the later years of retirement, above the amount provided by the state pension.

Also, Collective Defined Contribution Schemes are in practice unavailable in the UK, though the Pension Schemes Act 2021 creates the legislative framework enabling them to be offered in the near future.

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

In the case of deferred annuities, the ability to offer 'value for money' is a considerable barrier due to the costs involved including the likes of solvency II requirements.

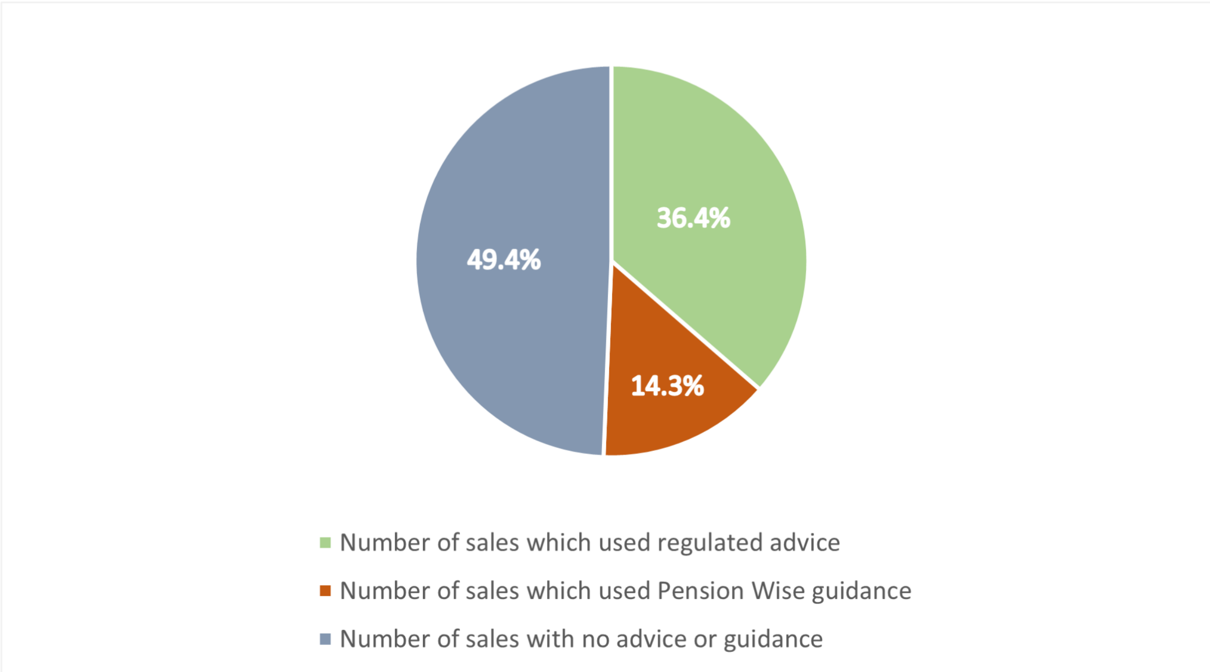
Question 4. Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?

We would like to start our answer by outlining what we believe consumers want when looking for 'guidance' or 'advice'.

We believe most consumers when hearing these words either want reassurance that the option they are considering is correct and is relevant to them, or they would simply like to be 'told' what is best for them.

Regulated advice can achieve both of these goals. However, in our humble opinion, 'guidance' falls short on both fronts. We would like to suggest the definition of 'guidance' is reviewed and better defined not only to give those within the pension industry better clarity, but also for the benefit of consumers.

Without clear boundaries for guidance being defined, there is a consistent fear of 'sailing into advice'. Presently, there feels like there is a gap between the 'guidance' and reassurance desired by consumers and what is being delivered.



The graph above, which uses FCA retirement income data for the reporting period April 2018 – March 2020 shows that nearly three and half times the number consumers have entered into a retirement income product without advice or guidance (654,466) compared to those who have taken guidance from Pension Wise (189,018).

On the face of it the above figure may be a cause for concern, however, it is important to recognise the role that providers play.

Again, using information from the FCA retirement income data for the same reporting period, we can see that over half (57% - 302,960) of new annuity and drawdown plans were sold by the existing provider. We believe this raises an important question, 'what is the consistency and quality of the information given by each provider?'.

Providers are currently completing a lot of the 'heavy lifting' concerning pension information, options and guidance. A potentially better journey may be that if most of the pension option information and guidance 'heavy lifting' was provided by MaPs earlier in the process, allowing providers to support consumers further down the decision-making tunnel.

Pension Wise (soon to be MoneyHelper), is an invaluable free impartial resource that could become a substantial force for good for consumers across the pensions landscape and more could be done to drive more consumers to them.

We believe that Pension Wise (soon to be MoneyHelper) appointments should become the ‘default’ or ‘opt out’ option. This should enable a greater number of consumers to receive a more consistent amount and quality of information without any unintentional bias towards a product or product offering.

This said, it is most important that any service offered by MaPS (such as Pension Wise) is adequately resourced to meet consumer demand, expectation and consumer behaviour. To this point, regrettably, some TTF members have mentioned that they have wanted to speak to Pension Wise, however, were subsequently ‘put off’ or ‘unable to’ due to appointment wait times.

In practice, most individuals wish to have a conversation concerning their pension options when they are looking at the relevant paperwork ‘there and then’ . As a result, waiting a matter of weeks is unlikely to meet consumer needs.

We assume that MaPS is able to accurately report on how many individuals visit their appointment webpages and subsequently, how many consumers abandon the webpage and/or website after seeing available appointment date/times. We would like to suggest that the committee requests the above mentioned abandonment rate data and subsequently, considers whether there are any learnings to be made.

Our final point is very much linked to the first inquiry within this series, however, we believe it is so important that lessons are learnt from past experiences. All of the scam victims within our TTF community who have bravely shared their deeply personal experiences have done so unselfishly, for all of our benefits. As a result, we urge the committee to do everything in its power to ensure lessons are learnt from the past.

Sadly, it seems unlikely that we will ever stop every single pension scam/fraud from happening, frustratingly this is not within our control. However, we acknowledge that greater information sharing and giving Trustee’s the ability to stop and refuse suspicious transfers will help and are positive steps in the right direction.

This said, there is one measure that can make a massive difference and is within our control, this being the proposed tax-amnesty and how HMRC treats people who have lost their pension savings due to criminal and or dishonest activity.

Please do not allow future consumers who fall victim to a pension scam/ fraud go on to face the same pressures and treatment from HMRC which the scam victims within the TTF community have had to endure.

Prevention is indeed better than cure, however, we also need to consider the measures and support in place should the worst happen.

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

MaPS should quite simply play a critical role for the majority of consumers.

The MaPS pension dashboard will hopefully, be the beginning of the end to 'lost' pensions in their truest form (forgotten/untraced pensions), never again should a living consumer not be able to locate their own pension savings.

We also hope that MaPS will play a central role across the pension industry, setting the standard for consumer-facing communication by using uncomplicated language, making pensions feel relatable and accessible for all.

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

We believe 'enhanced guidance' or potentially, a better way of phrasing it might be 'personalised guidance', would seemingly be a good step for MaPS and its users. Everyone's journey will be personal, each individual's means and needs and will inevitably be very different and for meaningful interactions to be had, the conversations should be more tailored to each individual.

Also, we would be grateful if a more holistic view was taken, potentially discussing the effect on any means-tested benefits for example, or any potential tax considerations. In short, we would like MaPS to be able to easily support consumers to see any of the consequences of decisions around any of the decumulation options being considered.

We don't believe that MaPS should be able to offer regulated advice in any capacity, however, they should be able to confidently and effectively be able to highlight relevant options to the individual's objectives, whilst highlighting why others may not be suitable for meeting those objectives.

Whatever the service MaPS (Pension Wise/MoneyHelper) offer, it should be very clearly described to consumers to avoid disappointment, we do not wish to create any potential disillusionment around the service. For example, we would not like to see consumers thinking they are going to be 'told' what they should do.

We would also like to introduce a further thought for consideration, there is a lot of focus on 'first-time access' which is understandable. In a post-Pension Freedoms world, a growing number of consumers are entering drawdown plans. Some as a way of accessing their tax-free cash only (248,267 plans according to FCA data between April 2018 – March 2020) and others as a way of providing regular withdrawals, either to exhaust the funds or to provide income (391,276 plans according to FCA data between April 2018 – March 2020).

This trend has resulted in a greater number of consumers having more flexibility and keeping multiple options such as access to one-off cash withdrawals or purchasing an annuity thus, keeping pension income options available to them for longer, some consumers may remain in drawdown for 20 or 30 plus years.

As a result, we feel it is important that MaPS is not a first time 'one-stop shop' only resource. We are seeing the creation of mid-life MOTs, but what about having a 'pension income 'check-up' service'? Potentially, this type of service may play an important role in stopping some savers from solely relying on state pension in later life.

Many consumer's circumstances and wants and needs will change with life events and their chosen product at first time access may no longer be suited to the consumers revised objectives. To us, this would indicate a likely future need for a service (ideally provided by MaPS) to be made available throughout later-life for those who may feel they need it.

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

Following initial guidance, we believe it is possible that investment pathways could be used to support a large number of consumers. However, for investment pathways to see a similar success, we believe investment pathways require further development.

At present, in our opinion, investment pathways are missing the 'pathways' section. It is a one-off decision made by the consumer which determines where the funds are invested, following this initial decision for most, there is little difference in the pathway journey.

This had been a good solution to reduce the number of consumers invested in cash, by making cash investment an active decision. However, in our humble opinion, it is not a 'pathway' it is simply a guide to support investment choice.

In our opinion, for investment pathways to be a true 'pathway' and a success, they need to shift focus from the investment part and move to the pathway part. In our opinion, investment pathways have an opportunity to address two key points:

- Sustainable/ appropriate withdrawal rates
- A well designed and mapped out decumulation communication journey

Investment pathways are largely selected by a consumer on a hoped-for future outcome, however, if the two points above are not addressed, the originally selected outcome is as good as worthless and will likely result in a failure to meet the initially selected investment pathway outcome as hoped.

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

Concerning the products, we believe the key information consumers should see include:

- Costs
- Product consumer profile (who is the product 'ideal for')
- Product pros and cons
- Past performance
- Any relevant protection (FSCS)

All of the above should be written in 'plain English' with little to no jargon.

We also believe that there should be a level above this one at product level, to support consumers. At this suggested level, consumers could be supported by receiving information concerning:

- Finding all their pensions - pension dashboards

- Household expenditure/what are the retirement income ‘needs’ – this could be supported by something similar to the PLSA’s Retirement Living Standards (https://www.retirementlivingstandards.org.uk/)
- Longevity/life expectancy - it is commonly reported that consumers underestimate their life expectancy by as much as 8 – 10 years)
- Tax considerations
- Inheritance planning
- Any impact on benefits

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

We believe that consumers are currently given too much information mainly via post all in one go. This can be extremely off putting and potentially, results in consumers disengaging with the process.

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

We believe this is possible, to a degree. However, consumers are not being supported enough to be given the opportunity to make changes.

In our opinion, there are two key barriers which presently prevent consumer behaviour from potentially solving the small pension pot issue, these are:

- The ability for consumers to see all of their pension savings in one place
- The ability to easily compare between the pension offerings

Without solutions to the above, it seems unlikely that we will see any change coming from consumers.

Conclusion and considerations

We are extremely grateful to the committee for reading our response. We have highlighted what we believe are our key points throughout our response for the committees consideration below:

- Is the option of 'blending' or combining products being explained and demonstrated in enough detail to non-advised consumers?
- We would like MaPS to take the lead on using simpler language across the pension landscape
- We would like to see greater transparency concerning Lasting Power of Attorneys (LPAs) and due consideration given to whether LPAs should have some sort of formal education, qualification requirement or sign up to some sort of code of practice before being granted
- Deferred annuities are not currently being offered within the UK. Why is this and could they provide a 'safety net' for some consumers in later life?
- We believe there should be a clearer definition provided of 'advice' and 'guidance' along with clearly established parameters
- We would like Pension Wise's resources to be reviewed. We have heard first hand that consumers wanting to use Pension Wise are unable/unwilling to wait weeks for an appointment
- We believe 'enhanced guidance'/'personalised guidance' would be a good step for MaPS and we would like MaPS to be able to have more holistic conversations concerning finances, including any potential tax and benefit considerations
- We would be grateful if consideration would be given to the idea of having a service which supports consumers in later-life and not just at the point of first pension access
- We believe for investment pathways to reach greater levels of success, they should develop their work on consumer communications throughout the selected pathway. As a result, this may support consumers in reaching their initially selected outcome
- We would like to put forward the idea that 'product consumer profiles' are provided to consumers e.g. This product was designed for ....

Within our response to question 4, we refer to an HMRC measure which we believe should be implemented as soon as possible. Once again, we wish to highlight our appreciation for the wonderful work carried out within part one of this three part inquiry.

1. We believe it is unrealistic to expect that all fraud, criminal and dishonest activities will be stopped. As a result, we respectively ask that HMRC's processes and policies are reviewed and relevant changes are implemented to ensure that anyone who may have

fallen victim to a pension scam, are either not chased for tax, at least, until at least a proper investigation has been carried out, alternatively, any tax claimed by HMRC is reimbursed should an investigation conclude that the pension funds have been stolen/taken as a result of criminal or dishonest activity.

We also wish to note that Money Alive, one of our members, has also submitted a response to the inquiry which offers an interesting technology solution to this question too.

Lastly, as mentioned within our executive summary at the beginning of our response, we would be very grateful if the committee would consider our proposal for the creation of an independent pension commission. So much has changed in pensions since the last report in 2006, we therefore think that the time is right for another independent commission to be established.

In our opinion, a report on today's pension policy issues and any likely future policy issues are desperately needed.

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