Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346

Email: enquiries@fs-cp.org.uk

15 June 2022

By email: workpencom@parliament.uk

Dear Sir / Madam,

**Financial Services Consumer Panel response to UK Parliament's Call for Evidence on Protecting Pension Savers – five years on from the pension's freedoms: saving for later life**

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of financial services policy and regulation in the UK. The emphasis of our work is on activities that are regulated by the FCA, however we also look at the impact on consumers of activities that are not directly within but are still relevant to the FCA's remit.

We are therefore responding to this consultation on the basis that evidence submitted is relevant to the UK Parliament's regulatory and policy activities in the pensions sector.

The Panel welcomes the opportunity to respond to Parliament's above consultation. Our responses to the questions posed in the consultation are included at Annex A below.

The Panel recently responded to the Department for Work and Pensions call for evidence on the Second State Pension Age Review. We have included a copy of this response in Annex B for your reference.

Yours sincerely,

Helen Charlton

Chair, Financial Services Consumer Panel

**Annex A – responses to questions**

**1. What would help employers support pension savers in making decisions while they save?**

According to evidence published by the FCA and TPR[1], employers are reluctant to provide pension support to employees due to the fine line between support and advice. Employers are able to provide employees with access to independent financial advice however this is a costly process. More work needs to be done with employers, so they understand the line between support and offering advice.

Education, either in advance or just-in-time, is a key element to this work. The Future of Global Retirement report[2] found that pension savers in the UK want to take control of their own finances. Therefore, it is important that workplace pensions offer information, education, tools, and support to employees and that their employer empowers them to make the decisions that are best for them based on their circumstances.

The Panel believe that there needs to be further support and education offered to firms (and arguably employers and schemes) on what they can and cannot do based on their FCA permissions – the panel has a view that firms could 'go considerably further' than they currently do, within the current regulatory framework, but they fear crossing the line as they perceive the impacts to be punitive.

Employers should also be sign-posting to other organisations who can help their employees.

Finally, it is important to remember that while employer support for saving is vital, over 4 million people in the UK are self-employed, many living on low incomes, and this group must not be overlooked for guidance and support for saving.

**2. When and how should the Government implement the key recommendations of the 2017 Auto Enrolment review (for contributions to be paid on earnings from the first pound and to reduce the minimum age for auto enrolment from 22 to 18?)**

The Panel believe that the minimum age for auto enrolment should be set to 18 and paid on earnings from the first pound as soon as is reasonably possible.

Approximately 5 million employees[3] are not eligible for auto-enrolment and the current situation is unfair to low-paid and young employees. According to research published the Pensions Policy Institute[4], some groups are at greater risk of experiencing inequalities associated with lower retirement incomes. On average, under pensioned groups (such as women, BAME consumers and disabled people) have retirement incomes that are around three-quarters of that of the wider population.

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[1] https://www.peoplemanagement.co.uk/article/1741603/how-employers-can-help-staff-navigate-pensions-minefield

[2] https://www.smart.co/future

[3] https://www.pensionspolicyinstitute.org.uk/media/1882/20170321-ppi-response-to-review-of-ae-march-2017.pdf

[4] https://www.pensionspolicyinstitute.org.uk/media/3679/20201208-the-underpensioned-index-report-final.pdf

Implementing these important recommendations will enable consumers to start contributing to and thinking about their pension at an earlier stage in their life.

We understand concerns that auto enrolment may divert income away from the lowest paid but evidence on the power of defaults in supporting saving is clear cut. Moreover, a voluntary opt-out, as opposed to a voluntary opt-in still allows the ultimate choice about whether to contribute, resides with the individual. Hence the Panel support the former.

We also understand the affordability issue for employers, but sustainable pension provision is a long-term necessity for national economic and social success.

This may also have a long-term impact on how the younger generation consider their pension and may, with the help of tools such as the Pension Dashboard, result in the shifts in behaviour necessary to ensure that individuals have adequate pension provision for their retirement.

With regard to the proposal for contributions to be paid from the first pound, the Panel is supportive but would propose this is not implemented until the impact of the current cost-crisis has had time to be unwound.

**3. Do minimum auto-enrolment contribution rates need to increase, if so, when and how?**

We would suggest this is viewed from the other perspective. What is the anticipated level of income needed in retirement, and how much of this is required to be funded by the consumer's own pension provision? On that basis what level of contributions would the consumer need to make over their earning lifetime (combined with employer contribution and Government contribution in the form of tax relief) to have an xx% chance of delivering the required retirement income – this should then be used to determine the amount by which rates would need to increase.

In terms of when? The Panel would support early change (once the cost of living crisis has been overcome) but that any increase is applied in small increments over a period of years.

**4. Some people have suggested that if contribution rates for workers increase, they should be able to 'opt down' to a lower contribution rate. Do you agree?**

The Financial Services Consumer Panel believe that consumers should be empowered to make informed decisions based on their own circumstances.

The Director of Policy and Market Engagement at Smart Pension, Darren Phillip, who suggested this proposal, also detailed that consideration of an 'opt down' option could change default behaviour which is something the Panel agree with. This option however could prove very tricky to implement as it would be difficult to work out if any reduction in pension payment is being made by the individual, the employer, or a mix of both.

**5. To what extent do employers offer encouragements to save more, for example, as salaries increase? Is there a role for Government intervention to encourage more of this?**

The Panel believe that Government should be working with employers to ensure that employees are being incentivised to save.

Whilst the Government offers tax incentives for pension savers, the Panel agree that more needs to be done in this area to ensure consumers are saving as much as they need for retirement. Appropriate guidance can play an important role here, which underlines the importance of employers understanding the line between support or advice and guidance.

The Panel would also like to add that whilst consumers need to be incentivised, firms and employers also need to be incentivised to spend the time and resource on educating and supporting their staff. Employers should not see Government intervention as a tick box exercise but truly engage with their staff on this important topic. The UK's self-employed population is also an important priority for support and guidance in relation to savings and pensions, particularly among people who are on low incomes or vulnerable.

Please see Annex B for considerations such as vulnerability of employees, personal circumstances and other issues.

**6. Should the £10,000 'automatic enrolment trigger' (the level of earnings at which a worker must be auto enrolled) be reduced or removed altogether?**

Research[5] shows that around 5 million people are locked out of auto enrolment.

The Panel are conscious that the £10,000 automatic enrolment trigger could be negatively impacting some consumers, mainly those on low incomes with research[6] showing that women tend to make up majority of this group as they do not hit the earnings cap. A report published by think tank Onward[7], estimated that abolishing the £10,000 earnings trigger, alongside a reduction of the age threshold, could see a full-time worker on the national living wage save an extra £93,989 over their working lifetime.

The Panel encourage consideration of our response to DWP's call for evidence on the Second State Pension Age Review. Our response highlights the issues for consideration in this area such as low earnings, the changing nature of work and other aspects that combined with the trigger, can have negative impacts on different consumer groups. The Panel would also encourage consideration of the 'sweet spot' for low-income earners – the spot where they can both contribute towards their pension but also still have enough disposable income. However, in general the Panel is concerned at the idea of addressing a problem of low earnings through delayed or reduced pension saving, which only builds up a problem for the future

It is crucial that education is delivered alongside these changes – being auto enrolled does not guarantee consumers a 'good' retirement income so consumers need to be made aware of other options available to them.

**7. Do we need a new Pensions Commission?**

In principle The Panel would be supportive of a new Pensions Commission. The precise role and remit of the Commission-in particular, delivery of better outcomes for consumers-should be clear. If a Commission is to be established, this should be done in a timely fashion to avoid uncertainty for providers and consumers.

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[5] https://www.pensionspolicyinstitute.org.uk/media/1882/20170321-ppi-response-to-review-of-ae-march-2017.pdf

[6] https://www.gov.uk/government/publications/automatic-enrolment-review-of-the-earnings-trigger-and-qualifying-earnings-band-for-202223/review-of-the-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-for-202223-supporting-analysis

[7] https://www.ukonward.com/reports/levelling-up-pensions/

**Annex B – Financial Services Consumer Panel response to DWP's call for evidence on the Second State Pension Age Review.**

Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346

Email: enquiries@fs-cp.org.uk

25 April 2022

By email: pensions.investment@dwp.gov.uk

Dear Sir / Madam,

## Financial Services Consumer Panel response to DWP's call for evidence on the Second State Pension Age Review.

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK. The emphasis of our work is on activities that are regulated by the FCA, however we also look at the impact on consumers of activities that are not directly within but are still relevant to the FCA's remit.

We are therefore responding to this consultation on the basis that its proposals are relevant to the FCA's regulatory and policy activities in the pensions sector.

The Panel welcomes the opportunity to respond to the Government's ambition to ensure that all relevant metrics are considered when setting the age of entitlement to State Pension age in the future.

As mentioned in Baroness Neville-Rolfe's introduction, the State Pension age will impact most consumers at some point in their lives and therefore it is important that the State Pension age considers both the current economic climate and where possible forward looking economic trends.

The state pension age may have less bearing on consumer decisions however needs to be well considered as:

- Consumers fall in and out of vulnerability – this may affect how they interact with their pension
- The state pension age is still material in setting expected retirement dates and judging in mortgage durations
- The state pension age also impacts income protection and other insurance related decisions
- Consumers' working lives are much less predictable, meaning there needs to be intra and inter-generational support above the state pension age for those who would otherwise face hardship

The Panel does wish to respond to each question posed however has included responses to questions it can best answer. Our responses to the questions posed in the consultation are included at Annex A below.

Yours sincerely,

Wanda Goldwag

Chair, Financial Services Consumer Panel

**Questions**

**3.1 Intergenerational fairness**

**As people are living longer, how do we ensure the costs of State Pension are shared fairly across generations?**

**What factors relating to intergenerational fairness should be considered when determining the State Pension age?**

The Panel have pulled together a list of key drivers of intergenerational differences:

- Ageing population
- Low interest rates
- Rising house prices
- Changing nature of employment
- Changes to student funding

Whilst these differences do not strictly speaking relate to retirement age or pensions, they all could affect consumers readiness for pension, contribution levels to pension and the way they interact with their pension. In turn, these should be considered when determining the state pension age.

**Is it reasonable to give people a fixed period of notice for State Pension age changes, and if so what period?**

Consumers, regardless of their age should be given notice of any changes in their pension. The Consumer Panel are strong advocates for consumer education and empowerment and believe there should be regular touch points with pension providers and their customers, this way customers will know when they are due to reach pension age and if as they plan their future there is a change in that predicted date

**3.2 Changes in the nature of work**

**How have changes to the types of jobs people do affected working lives?**

The Office for National Statistics reported that the number of people employed with no set guaranteed working hours had risen by 100,000 to 1.8 million over 12 months[8]. Whilst the impact of zero-hour contracts may not be felt immediately, there may be repercussions affecting later life. As zero-hour contracts are generally associated with lower wages, some of these workers may not be automatically enrolled into their workplace pension.

When on a zero-hour contract, earnings can vary from week to week, this can make retirement planning more difficult. When paying into a pension, the amount that a consumer on a zero-hour contract can afford would vary in accordance with their pay for that period. This adds an element of uncertainty into retirement planning.

Fluctuating income is far from a zero-hour contract issue and has become the new normal style of working for a significant number of working age consumers. Nest insight[9] indicates that even before the pandemic, over 60% of Nest members had earnings that varied significantly from pay period to pay period with joint Resolution Foundation and Lloyds Banking Group research[10] also highlighting the significant growth in pay period to period income volatility.

The Panel would encourage this review to consider this matter further.

**What are the anticipated future changes to the workplace? How could this impact on people's working lives?**

[8] https://investmentsense.co.uk/helping-younger-generations-plan-for-retirement-on-a-zero-hour-contract/

[9] https://www.nestinsight.org.uk/impact-of-covid-19-blog-series/

[10] https://www.resolutionfoundation.org/publications/irregular-payments/

The workplace is expected to change significantly in the next 20-30 years. The demand for digital skills has grown by over 60%[11] in the past several years and by 2028, employees are expected to use avatars, language software, conversational interfaces, and real-time dialect translation to work and speak with team members.

Covid-19 has both accelerated and given rise to new trends and changes in the workplace. The short-term consequences were sudden and often severe for consumers with the introduction of furlough and many becoming redundant during a short, highly stressful, period.

The most obvious change to the workplace due to Covid-19 was the dramatic increase in employees working remotely, this has prompted a large change in the geography of work as evidenced by a recent report from Mckinsey[12]. It is difficult to know at this stage what affect, if any, this would have on people's working lives and therefore their pension.

**What factors do people consider when making decisions about when to retire?**

**3.3 Sustainability and affordability**

**What is the most sustainable and affordable way of managing the cost of State Pension in the longer term? What are the advantages and disadvantages of potential options?**

**3.4 Metrics for setting State Pension age**

**Is it reasonable for people to expect a fixed proportion of their adult life in receipt of State Pension?**

It is reasonable for people to expect a fixed proportion of their adult life in receipt of state pension. This however will depend on their circumstances.

**Are there options for taking account of differences in circumstances when setting State Pension age in the future? What are the advantages and disadvantages of these options and how could they operate within the current pensions framework?**

**How can we best take into account the sensitivity of life expectancy projections when considering an appropriate State Pension age for the future?**

**Are there other metrics which are relevant or more suitable to help determine State Pension age in the future, and if so, what metrics?**

**What factors do other countries consider when determining State Pension age?**

The Panel would like to draw attention to the following within different countries in the world[13]:

- New Zealand's workforce is ageing, as they face the challenges of population ageing, governments in developed countries such as New Zealand are considering how to increase labour-force participation by older workers to discourage early retirement.
- The National Strategy for an Ageing Australia argues that workforce participation in older life will be necessary to sustain economic growth.

According to sources, there is a widespread belief that initiatives to enhance workforce participation by older workers will have advantages for workers themselves, their employers and society and a whole.

The Panel have come up with a list of factors that they believe should be taken into consideration at retirement:

- Health status
- Financial circumstances
- Work-life balance
- Caring and unpaid work opportunities

[11] https://www.gartner.com/smarterwithgartner/6-ways-the-workplace-will-change-in-the-next-10-years

[12] https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19

[13] https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/journals-and-magazines/social-policy-journal/spj33/33-what-influences-retirement-decisions-p11-125.html

According to data obtained on New Zealand, the most important influences are personal or “pull” factors, such as health and wanting to do other things. The study made reference to the difference in considerations for each gender with women more likely than men to give importance to health of family members and whether their partner is about to retire. Women were found more likely to consider their employers’ policy than males.

As such, the Panel suggest that further considerations are made to the difference in men and women to ensure a consistent outcome.

**3.5 Additional information**

**Do you have any other comments which relate to the Terms of Reference of this review, that you wish to share?**

The Panel would like to highlight a report from the House of Commons on the Gender Pension Gap[14]. Although estimations vary, the difference in retirement income between men and women is larger than the gender pay gap. The Panel would recommend consideration of these issues, especially gender related, when conducting this independent review.

[14] https://researchbriefings.files.parliament.uk/documents/CBP-9517/CBP-9517.pdf