



HM Treasury

Pension freedom guidance and advice:

government response to the Work
and Pensions Committee's first
report of session 2015-16



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and Pensions Committee's first report
of session 2015-16

Presented to Parliament by
the Economic Secretary to the Treasury
by Command of Her Majesty

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1 Introduction

1.1 The government welcomes the Work and Pensions Committee's first report of session 2015-16, which considered pension freedoms guidance and advice. The report makes a number of recommendations for the government and the Financial Conduct Authority (FCA), to which the government has set out its initial response in this document. The FCA will be issuing their own response alongside that of the government.

1.2 At Budget 2014 the government announced the most radical changes to pensions in almost a century. Since April 2015, anyone aged 55 and over has been able to access their defined contribution pension and use those savings as they choose. The government believes it is right that people who have worked hard and saved throughout their lives can make the choices that are best for them.

1.3 In order to help make these choices, the government also announced that everyone affected would be entitled to free, impartial guidance. That is why the government set up Pension Wise, which launched in March 2015, and has since helped over 35,000 people better understand the options available to them. The government welcomes the committee's recommendations for the service, and is pleased to note that many of these are already being addressed.

1.4 The government recognises that there is still progress to be made in ensuring that consumers are able to get the support they need in a way that works for them. That is why it launched the Financial Advice Market Review (FAMR) and the Public Financial Guidance Review. The government welcomes the committee's interest in and contribution to FAMR. Many of the areas which the committee has mentioned in their report have also been identified by FAMR, such as the high cost of advice and the need to support innovation in the advice market.

1.5 The government is committed to ensuring that the new system works in practice and will work with the committee going forward to enable all consumers to benefit from the pension freedoms.

2 Government response

Assessing pension freedom

We recommend the government publish, or require its regulators to publish, statistics on Pension Wise and the advice and pensions markets on a quarterly basis, encompassing:

- a) customer characteristics including pension pot size and other sources of retirement income
- b) take-up of each channel of guidance and advice
- c) reasons given for not taking up guidance and advice
- d) subsequent decisions taken
- e) reasons given for those decisions

We recommend that the government initiate a rolling research programme to track the longer-term consequences of pension freedom decisions. We expect the government to detail its approach to assessing the long-term effects of the reforms in its response to this report.

2.1 The government is also committed to being open and transparent with Pension Wise data. As the Economic Secretary to the Treasury, Harriett Baldwin, announced at her appearance at the Select Committee, Pension Wise data will be available on the GOV.UK performance platform. This will be available from 17 December 2015.

2.2 At its outset, the performance platform will be updated on a monthly basis, and will contain data on:

- total website visits and cost per website visit
- completed appointments and a breakdown by channel
- cost per completed appointment
- user satisfaction
- online metrics

2.3 As the committee is already aware, Pension Wise is delivered by multiple delivery partners, all with pre-existing data and reporting platforms and procedures. There are currently some differences in data reporting, and Pension Wise cannot currently capture data on user characteristics in a consistent way across the service as a whole. Work is presently underway to improve how data is captured effectively across all delivery partners. The government is committed to sharing useful data once these developments and improvements to data collection have been embedded.

2.4 The government is procuring external research for Pension Wise in order to understand what users do following an appointment with the service, and how much the appointment improves their understanding. It will also cover the extent to which the guidance has empowered individuals to make informed and confident decisions about their pension arrangements. The government believes it is important to be open with this research programme and it commits to publish findings from this in 2017. This will help to address the committee's recommendations to publish information on the decisions consumers make, and the reasons for these in relation to Pension Wise.

2.5 The government's pension reforms were a fundamental change to how people can access their pension savings, and the government agrees that it is important to monitor these changes to understand their effects on the market and consumers.

2.6 As the relevant regulator, it is right that the FCA takes a leading role by using their wide-ranging powers to request data from providers, monitor the market and take enforcement action where appropriate. In September 2015, the FCA began their Quarterly Retirement Income Data request to help them deliver on their commitment to monitor the post-freedoms market and track developments, consumer behaviour and outcomes.

2.7 The government is leading a data and monitoring working group comprised of government departments, the regulators, industry and consumer representatives to coordinate data collection following the pension freedoms, to ensure that key indicators are being captured and monitored. This is helping the government to understand how industry is responding to the pension freedoms and how individuals are accessing their savings. Mandatory reporting by providers from April 2016 of the number and value of money accessed through pension schemes to HMRC will further inform the government's evidence base with robust data.

Scams

We recommend the government urgently redouble its publicity efforts around pension scams. We further recommend the FCA tighten its scam awareness and reporting requirements for regulated firms. Scams are a tragedy for individual households and undermine trust in the law-abiding and responsible majority in the retirement finance sector. Scammers must be stopped. We will monitor action on pension scamming closely over the course of the Parliament.

2.8 The government takes the issue of pension scams very seriously and works closely with the National Crime Agency (NCA), regulators, industry and others via Project Bloom, the multi-agency task force led by the NCA, to tackle pension scams and understand any emerging threats. Project Bloom ensures a co-ordinated approach to disrupting scams by ensuring that the key departments and agencies that deal with scams are joined up and communicating with one another.

2.9 The government's anti-scam strategy is also focused on improving consumer awareness, to prevent people falling victim to scams in the first place. Raising awareness of the warning signs and sources of reputable guidance and advice is a useful defence against the lure of scammers who often appear convincing.

2.10 The regulators, the FCA and The Pensions Regulator (TPR), are both running consumer awareness campaigns to mitigate the risk of pension scams. The FCA run a campaign around investment scams called ScamSmart, and provide an online tool that allows consumers to assess the likely validity of a potential investment. The FCA also signposts consumers to reputable sources of advice. TPR runs the Scorpion campaign, which includes videos, action packs, leaflets and guidance, to help raise awareness amongst trustees, business advisers and individuals of the threats posed by scams. These campaigns, with core messages such as avoiding cold-callers, are ensuring that consumers accessing the freedoms have the information they need to protect themselves from scams.

2.11 Pension Wise also specifically alerts its users to potential scams during appointments and the Pension Wise website and summary document that users receive following their appointment contain guidance on avoiding scams. Pension Wise also makes it clear through advertising and their website that no cold calls are ever made by its guiders.

2.12 The government agrees with the committee that scammers must be stopped and will consider what steps it can take to ensure that the wider impact of the pension reforms on scams is fully understood. For example, at present those who fall victim to scams after having accessed

their pension under the freedoms are classified as victims of investment fraud, rather than pension fraud. The government will therefore work with Action Fraud and the National Fraud Intelligence Bureau, through Project Bloom, to consider how to ensure reported data on pension scams is clearer, and how best to drive forward this agenda, ensuring that there is an ongoing focus on the pension freedoms in 2016.

2.13 The government, the regulators and the industry are there to help, but people need to be on their guard too against cold callers, offers of unrealistic investment returns, promises of tax loopholes or other dubious advice linked to their pension pot or cash lump sums. As with any important financial decision, people should seek reputable guidance and independent financial advice to support them to make a decision on how to use their pension savings when they come to retire.

Pension Wise

We recommend the FCA strengthen its rules and guidance for pension providers regarding Pension Wise signposting and risk warnings; and assure compliance through mystery shopping exercises. We further recommend that the number and proportion of customers that contact Pension Wise having been signposted there by each provider should be tracked and published in regular statistics.

2.14 The government agrees that the effectiveness of provider signposting to Pension Wise is important. Signposting and risk warning requirements for providers are an operational matter for the FCA, who will be outlining their response to the committee's report separately. The FCA are currently consulting on whether changes are needed to the Retirement Risk Warnings as part of their consultation paper on pension reforms, which was published in October, and the government looks forward to the outcome of this consultation ensuring better action.

2.15 For trust-based schemes, Department for Work and Pensions (DWP) and TPR are currently consulting on the best way to place a requirement on trustees to provide appropriate risk warnings for members of occupational schemes.

2.16 Regarding the committee's further recommendation that the number and proportion of individuals that contact Pension Wise having been signposted there by each provider should be tracked and published, Pension Wise currently holds data on where individuals heard about the service. This includes the number of individuals who say they were referred to Pension Wise by their provider. In response to this recommendation, the government will commit to publishing this data on the GOV.UK performance platform by March 2016. Pension Wise does not currently collect data on the number of individuals signposted by individual providers.

We recommend the government work with the FCA and guidance providers to develop a more holistic Pension Wise service that offers more personalised support.

We recommend that the Financial Advice Market Review consider the case for offering two or more Pension Wise guidance sessions per customer.

2.17 The government can confirm that work to meet these recommendations is already underway.

2.18 The service development plan for Pension Wise is based on research, analysis of performance data, and feedback from users and guiders. This plan includes changes to appointments, including specific content for those aged 50-55 and the introduction of flexible appointments. Appointment content for those individuals aged 50-55 will ensure that appointments provide a meaningful experience for those not yet able to take advantage of the pension freedoms. Flexible appointments will help guiders to offer more personalised support to users of the service, by better reflecting where each user is in their decision-making process. To

help people benefit from these changes, the government will also allow people to have more than one Pension Wise appointment. The government believes that these changes will deliver more personalised support.

2.19 The government is currently consulting on what public financial guidance it should be providing and how it could best be structured and targeted to meet consumer needs. The consultation closes on 22 December 2015.

We recommend the government ensure the Pension Wise website provides an indicative income calculator, illustrative examples tailored to individual circumstances and a printable summary function as a matter of urgency. Over time we would expect this service to enable customers to include other potential income and expenses in their calculations.

2.20 The service development plan for Pension Wise features changes to the website, including the introduction of calculators. The first of these, a calculator for people planning to take their whole pot in one go, was published in November 2015. The government is also trialling a range of other simple calculators with a view to publishing those which users find useful.

2.21 The Pension Wise website also provides links to helpful tools where they already exist, like those on the Money Advice Service website.

2.22 The government will consider how a printable summary of online content from the Pension Wise website might help people. The service already provides consumers with a summary document following their telephone or face to face appointment. This provides key information for consumers, and has the additional benefit of being tailored for individual circumstances.

We recommend the government announce a clear timetable for the introduction of a pensions dashboard in its response to this report.

2.23 If the industry identifies legislative and regulatory barriers preventing firms from innovating in this area, then the government will consider whether these can be overcome. However, as noted at the committee, it is important that any dashboard is industry led; there is no benefit in the government imposing a solution on industry that is not fit for purpose. More generally, as part of FAMR, we will be looking at ways to make individuals' access to their financial data easier.

The advice market and regulatory clarity

We recommend that the government and the FCA, as part of the Financial Advice Market Review, clarify:

- a) the distinction between guidance and advice
- b) the definitions of safeguarded benefits
- c) protections in providing advice to insistent clients

2.24 The government agrees with the committee that regulatory clarity is important for individuals, providers, and advisers. FAMR plans to explore this. The call for input to FAMR was published on 3 August 2015. It explicitly named regulatory clarity as a potential barrier to firms providing advice, and the review is considering this issue carefully. The government is committed to removing obstacles to the operation of the market.

2.25 FAMR is intended to explore what more can be done to make sure that consumers can access quality, affordable advice. The government recognises the quality of advice currently available in the UK financial advice market, however it also acknowledges that this advice is often expensive, and therefore out of reach for many individuals. One of FAMR's key objectives, therefore, is to examine closely whether changes to the regulatory environment could alter this.

2.26 When implementing the pension freedoms, the government introduced a requirement for those with safeguarded benefits, including those with pensions that have a Guaranteed Annuity Rate (GARs) or a defined benefit pension, to seek independent financial advice before being able to convert or transfer their pension.

2.27 This requirement was introduced as an additional layer of consumer protection to ensure that those who have pensions with particularly valuable features fully understand these features before making any decision on accessing their pension flexibly. The government is keen to ensure that this requirement is working as intended and, as such, DWP are currently reviewing the valuation of GARs.

2.28 In addition, and in line with the committee's recommendation to provide greater clarity on this issue, the government commits to consider the operation and application of the current advice requirement (currently applying to individuals wishing to convert or transfer a pensions with safeguarded benefits, such as a defined benefit pension or GARs, with a pot value above £30,000) and how it impacts on specific groups (such as insistent clients) after the publication of FAMR in early 2016.

We recommend the FCA bring forward new stronger rules and guidance for standardised language, and transparency in pricing, for pensions and associated advice. Once in place, it is important that these rules are strictly enforced: unnecessary complexity is as much an enemy of a smoothly-functioning market as more obvious regulatory transgression.

2.29 The government agrees with the committee that accessible language for individuals is important and recognises that more available and effective advice and guidance alone won't facilitate more informed and engaged consumers – industry must take the lead in making the sector more accessible to everyone.

2.30 The government and the FCA agree that complex language can be a barrier to consumers' understanding of pensions and comparability of products used to access the pension freedoms. That is why the government and the FCA have supported the Association of British Insurers' (ABI) Pensions Language Steering Group, whose aim is to formulate a standardised protocol for pensions language and terms.

2.31 The government recognises that more could be done. That is why, in response to this recommendation, the government will challenge the steering group to deliver a robust sector-wide solution that can simplify things for individuals, before looking at regulatory options to achieve this.

2.32 Furthermore, the government has already ensured that the language used by Pension Wise has been tested for accessibility and comprehension by the service's users. Similarly, where the service has evidence of any unsuitable language, trials of suggested improvements are conducted and then implemented if successful. These findings have been shared with the ABI steering group mentioned above.

Government and FCA have ready access to a wealth of data. Where these data point to clear problems and potential remedies, they should act more quickly than their review timetables imply. Ongoing monitoring will enable such measures to be adjusted over time.

2.33 The government is committed to ensuring that individuals are able to get the advice and guidance they need in a way that works for them. As such FAMR and the Public Financial Guidance Review will be run to tight timetables, with both reviews planning to report back by Budget 2016.

2.34 The government would like to reassure the committee that it is committed to ensuring that the advice landscape works for people in the long-term, and as such, FAMR will consider how best to monitor the policy proposals that result from the review.

HM Treasury contacts

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If you require this information in an alternative
format or have general enquiries about
HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gsi.gov.uk