

Pension Freedoms Inquiry

Submission by Prospect to Work and Pensions select committee

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INTRODUCTION

1. Prospect is an independent trade union representing over 140,000 professional, managerial, technical and scientific staff across the private and public sectors.
2. Many of our members contributing to defined benefit and defined contribution pension schemes across the private sector have been significantly affected by pension freedoms. This submission is based on our members' experiences since the policy was introduced as well as the views of senior representatives and negotiators about how members might be affected in the future.
3. Prospect officials are happy to discuss any aspect of this submission in more detail if that were useful.

SUMMARY

4. The "freedom and choice" policy was announced in the 2014 Budget with no advance consultation about the potential issues that would arise or how to deal with them. While the political benefit of doing away with the requirement to annuitise, and the beneficial short-term fiscal impact on the Exchequer, were both obvious; it was less clear how pension freedoms were meant to address known problems in the retirement income market or otherwise fit in to a coherent, overall retirement savings strategy.
5. However, regardless of the wisdom or otherwise of the policy, pension freedoms are popular, both with Prospect members and the general public, so the committee's focus should be on recommendations that will improve outcomes for pension scheme members accessing pension pots flexibly.
6. There are numerous relevant issues for the committee to investigate but Prospect believes that there should be a particular focus on future outcomes for people depending mainly on defined contribution pension pots and whether they are adequately protected.
7. In particular the committee should:
 - Hold government to account for the poor functioning of the retirement incomes market since pension freedoms were introduced.
 - Demand changes that will improve the levels of shopping around when savers access pension pots.
 - Press the FCA to introduce default pathways (with an appropriate cap on charges) for the decumulation phase to protect members who do not shop around.
 - Call for further action to protect pension scheme members from scams and miss-selling - including pressing government to implement the cold call ban sooner.
 - Investigate the appropriateness of transfer advice to defend benefit pension scheme members.

DETAILED COMMENTS

8. Please see our detailed comments under various headings in the inquiry's terms of reference below.

- **Is there evidence of product market competition resulting in cheaper, clearer or a wider products for consumers? Are people switching from their pension provider in accessing their pots? Is an adequate annuity market being sustained?**

9. These are key questions for assessing whether pension freedoms are delivering good outcomes for pension scheme members.

10. Before pension freedoms, most defined contribution pension scheme members used their pension pot to buy an annuity. The main problems in the annuity market were:

- Consumers failing to shop around and instead opting for an annuity offered by their pension provider.
- Consumers failing to take advantage of enhanced or guaranteed annuity rates.
- Consumers failing to make adequate provision for inflation protection or for dependents.

11. Pension freedoms led to fewer people buying an annuity but it did not directly address any of the problems regulators and others had identified in the annuity market.

12. In fact consumers now face worse outcomes and greater risks because of pension freedoms:

- Far fewer non-advised drawdown sales are a result of shopping around than annuity sales prior to pension freedoms (6% now versus "over half" then, according to the FCA¹).
- It is far more difficult for consumers to shop around between different drawdown products because they are less standardised than annuities and there are no comparison tables or calculators.
- Opacity of charges for drawdown products could result in consumers being ripped off.
- The ongoing risks associated with drawdown products (eg exhausting pot too soon) are far greater than for annuities.
- There are potential issues with tax, means-tested benefits, creditors and even criminal fraudsters.

13. It should not be a surprise that there are these problems in the drawdown market. The problems identified with annuities had existed for a long time. Similar providers in the workplace pension market had been shown by the Office

¹ <https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review>

of Fair Trading to deliver poor outcomes to savers for some of the same reasons².

14. There is no evidence of product market competition delivering cheaper or clearer products to savers. It would be naïve to expect this outcome in the face of so much past evidence of market failure. It is also obvious that defined contribution scheme members are not shopping around when accessing their pension pot.
15. As well as extending problems in the drawdown market to many more savers, pension freedoms have also had consequences for the annuity market that could also impact on value for money for scheme members³.
16. These issues will become even more urgent when more defined contribution scheme members come to access more significant pension pots at retirement.
17. The committee should invite providers to give evidence about the level and form of charges they levy on customers accessing pension pots.
18. The committee has to consider what interventions are necessary to ensure that savers get good value for money when accessing pension pots. These are likely to fall into two categories: improving levels of switching providers and shopping around for savers coming to access their pension pots and regulatory interventions to ensure a minimum level of protection for savers who do not make an active decision about their provider when accessing their pension pot.
19. Pension Wise may have a role to play in making pension scheme members aware of the benefit of shopping around but cannot be expected to help members find better products. The committee should consider what further action government can take to improve the number of savers taking independent advice when accessing a pension pot.
20. The committee should press the FCA to introduce default pathways (with an appropriate charge cap) for the decumulation phase in order to protect scheme members who will not take advice or otherwise shop around for the best outcome.

- Are the Government and Financial Conduct Authority taking adequate steps to prevent scamming and mis-selling?

21. Pension scams are a personal tragedy for the people caught and their families and even a single case is one case too many.
22. It should be noted that pension scams were widespread before the introduction of pension freedoms.

²http://webarchive.nationalarchives.gov.uk/20131101172428/http://oft.gov.uk/shared_oft/market-studies/oft1505

³ <https://www.moneymarketing.co.uk/issues/17-november-2016/providers-facing-slow-death-annuity-market/>

23. However the advent of pension freedoms has provided more opportunities for scammers to find victims.
24. Prospect has not been notified of many cases of losses to scammers amongst our members. However those cases that we are aware of often arise some years in arrears due to the time taken for victims to realise their predicament. Some losses to pension scammers are miss-identified as general investment losses. The committee should attempt to estimate the overall losses of pension scheme members to scams both before and after the introduction of pension freedoms. Advice from the Government Actuary's Department may be helpful in estimating total losses from the partial reports currently available.
25. Estimates of overall losses would be helpful in making the case for better protection from scammers for pension scheme members.
26. It should be noted that pension freedoms were introduced just over a year after they were initially announced whereas government will take far longer to implement a ban on cold calling. The committee should press government for more urgent action on this point.
27. The committee should also recommend other actions that can be taken to tackle the unacceptably high incidence of losses to pension scams.
28. Pension scheme members are not just at risk from criminals operating scams, they are also vulnerable to poor outcomes through miss-selling.
29. There is no doubt that the introduction of pension freedoms has spawned a mini industry of advisors who exist to generate fees from defined benefit pension scheme members taking transfers values.
30. In Prospect's experience there is a wide range in the quality of advice offered to members of defined benefit pension schemes taking transfers.
31. Prospect has members in defined benefit pension schemes where over 25% of active members have taken a transfer value from the scheme but where the reasons for doing so are clear and the quality of advice is high.
32. Prospect also has members that received unsolicited calls or emails or who work at locations where advisors have organised off-site meetings close by. In these cases the goal of the advisors often seems to be to generate high levels of transfers, and therefore fees, rather than to secure the best outcome for members.
33. The committee should call senior management from a range of advisors engaged in these activities to give evidence to explain how their actions result in better outcomes for pension scheme members.
34. The committee should push regulators to strengthen the regulatory regime in order to ensure that pension scheme members receive appropriate advice.