Consultation Response

Pensions Review: Phase 1

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About this consultation

The Pensions Review, announced by the new Government in August, is looking across defined contribution and local government pensions to ascertain how the system can be improved to the benefit of both savers and the British economy. This consultation is for Phase 1[i], which is looking at ways to boost investment, increase saver returns and tackle waste in the pensions system.

Key points and recommendations

- Age UK agrees that a more consolidated DC marketplace has the potential to deliver beneficial outcomes for savers.
- We broadly welcome recent developments in the DC marketplace which have led to increased consolidation and increased scale. This is crucial for schemes to invest more in private finance and a key determinant of passing the benefits of this on to savers.
- However, pension savings represent people's future retirement income, and protecting their value should be the Government's and pension schemes' priority – schemes should only invest in assets appropriate to the members' interests.
- Efforts to create an assessment framework for Value for Money are welcome, but costs and charges remain the most important component of this. Consideration should be given to reducing the Charge Cap, so that it is in line with average charges for defined contribution pension schemes.
- We are highly sceptical that the Consumer Duty will deliver good outcomes during either the accumulation or decumulation phases – it is difficult to see how the FCA will evaluate, monitor and enforce this regime on pension schemes in a way that makes a meaningful difference to DC savers in contract based schemes.
- We believe the Duty should be upgraded to a Duty of Care, or even directly to a fiduciary duty, to place a legal requirement on schemes to work exclusively in their members' interests.

About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

Consultation questions

Scale and consolidation

1. What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?

Age UK agrees that a more consolidated DC marketplace has the potential to deliver beneficial outcomes for savers. We welcome recent trends that have led to the reduction of numbers of trust-based schemes, as well as Government initiatives to drive consolidation. The upcoming introduction of the default accumulator model for managing small pots is also likely to be a positive development, subject to suitable controls put on how the default schemes manage the pots placed under their stewardship.

Whatever policy direction the Government decides to go following this Review, it is imperative that it remembers that pension pots are ultimately savers' income in later life, and that nothing should jeopardise this.

The importance of scale for driving down costs and charges for members should not be forgotten. Value for Money may be an important step forward, but ongoing management charges are one of the few variables that are certain, and it is imperative that schemes keep these as low as possible.

Recent DWP research shows that the master trusts had an average ongoing charge of 0.48%, slightly lower than the average contract based scheme charge of 0.50% - but both still well below the Charge Cap. The research finds a clear link between scale and lower charges, indicating that increased scale is in savers' financial interests[ii] – presumably as long as the balance is struck between maintaining competition and enabling large schemes to operate (i.e. they shouldn't get too big), a balance which the Government and regulators, including the Competition and Markets Authority, will need to maintain over time.

As larger schemes are much more capable of driving good value investments in private finance and illiquid assets, it is clear that if the Government continues with efforts to encourage the industry to do this then scale is a pre-requisite – smaller schemes will pass on a disproportionate amount of the cost (which can be high and variable) to savers, and it is highly undesirable that they are engaged in this space.

Rising average charges could demonstrate that schemes have either been pushed into inappropriate investments or that there is reduced competition across the industry, so while the Charge Cap provides some residual protection there is a strong argument for lowering it as scale across the industry increases. Consideration should be given to reducing it to 0.5%, in line with average DC pension scheme charges.[iii] The Cap remains an important – arguably the most important – consumer protection mechanism, and should remain a key plank of efforts to improve consumer outcomes.

We would also like to point out that a 'pot for life' (also sometimes referred to as a 'lifetime provider' or as 'stapling') is likely to lead to poor outcomes to non-advised, mass-market savers. Pursuing this would cause a schism in the DC marketplace, with more lucrative (i.e. higher earning) customers being proactively marketed to and more likely to leave their default workplace scheme to take up more tailored offers elsewhere. Other non-advised and more disengaged savers would stay in their employer's default provider, and likely experience an increase in fees as a result – Australian price comparison website Canstar says that super funds in its database charge 0.91% - 1.21%, far above the UK's Charge Cap, while other funds charge even more.

Decumulation

The Government 's current plans in the Pensions Schemes Bill to improve decumulation outcomes for savers in trust-based schemes are very welcome. However, currently there are no price or value-for-money style protections in the decumulation phase, and Age UK encourages the DWP and the Treasury to work with regulators to develop an appropriate structure to ensure that any retirement product pathways deliver the best possible value for consumers. This should include placing a price cap on drawdown funds to match that for savers.

3. What should the relative role of master trusts and GPPs be in the future pensions landscape? How do the roles and responsibilities of trustees and IGCs compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?

It is likely that the large master trusts and GPPs will dominate the workplace pensions market in the future. This may well drive positive outcomes for consumers, pending other factors such as charges/value for money, transparency, competitive marketplace pressures and, last but not least, improving governance. There is a notable difference between how the contract based and trust based worlds approach governance.

Age UK has long argued for a 'Duty of Care' to be applied to financial services companies.[iv] [v] We believe this would be particularly appropriate for pension schemes, as a typical consumer has low levels of engagement and understanding of their pension saving and retirement income options. Schemes should be obliged to do everything in their power to help their savers find the best option (on the open market, wherever possible), and we are concerned that the current regulations leave consumers short. The primary purpose would be as a preventative measure to force schemes to get their houses in order – although it would create a legal route to redress, which would incentivise firms to take it seriously[vi].

We also believe that pension schemes with sufficient scale and operating under a Duty of Care or fiduciary duty will be more likely to invest in productive assets, as the higher returns will be in the direct interests of their members.

While some contract based pension providers are developing solutions to guide consumers through their retirement journey, the Consumer Duty is likely to prove too weak a requirement to guarantee that these are looking after consumer interests. It is difficult to see how the FCA could evaluate, monitor and enforce a regime that focuses on and enforces consumers' best interests in such a diverse marketplace that is steeped with consumer disengagement, especially without a clear idea of what constitutes value for money (which, in spite of the regulators' best efforts is difficult to define). At the very least, the FCA should be required to develop a specific plan for the application and enforcement of the Consumer Duty on pensions schemes.

Independent Governance Committees have no legal requirement to act in scheme members' best interests, instead following the FCA regulations, and often have no genuine consumer voice as part of their makeup. There is also limited scrutiny on their work and how they benefit consumers, with the FCA publishing limited analysis on IGC performance. Part of their remit includes assessing Value for Money of schemes and of retirement solutions, however in the absence of clear guidance and cross-industry consistency this is difficult for them to meaningfully achieve a positive impact for savers and consumers.

A Duty of Care is similar in scope to trust-based schemes' fiduciary duty to act in their members' interests. Age UK believes there is a golden opportunity to strengthen the standard of regulation across the whole pensions landscape, by either placing a new Duty of Care on pension schemes or extending the fiduciary duty. This could make a significant difference to members both during the accumulation and decumulation phases, and give consumers a genuine route to redress through the courts when necessary. Age UK believes such a change would significantly improve the governance of contract based schemes.

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[i] https://www.gov.uk/government/calls-for-evidence/pensions-investment-review-call-for-evidence

[ii] DWP (Nov 2023) Trends in the Defined Contribution trust-based pensions market https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market

[iii] DWP (Nov 2023) Trends in the Defined Contribution trust-based pensions market https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market

[iv] https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/money-matters/age_uk_response_to_fca_duty_of_care_november2018.pdf

[v] https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/money-matters/consultation-response---cp2113-a-new-consumer-duty-financial-conduct-authority.pdf

[vi] Financial Services Consumer Panel (2017) Duty of Care Briefing https://www.fca.org.uk/panels/consumer-panel/publication/duty_of_care_briefing_-_jan_2017.pdf