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

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Carol Oxborough,
Clerk of the Committee
Work and Pensions Committee
House of Commons
7 Millbank
London SW1P 3JA

26 August 2011

Dear Ms Oxborough,

Inquiry into automatic enrolment in workplace pensions and the National Employment Savings Trust (NEST)

The Financial Services Consumer Panel welcomes the opportunity to provide input into the Work and Pensions Committee inquiry into automatic enrolment in workplace pensions and the National Employment Savings Trust (NEST).

The Panel has taken a close interest in pension reform and the development of NEST which, although outside the remit of the FSA, is likely to have a significant impact on consumers and how they interact with the areas of the industry regulated by the FSA and its successors. It has in the past responded to a number of consultations and provided other input to the DWP. Copies of these responses are available on the Panel website[1].

In drafting this reply, we have chosen to focus on the first of the points raised, specifically the DWP's communication strategy for introducing auto-enrolment and provision of advice and support to employers and employees.

The Panel is broadly supportive of an initiative such as pension reform which has the objective of improving access to retirement saving for those who do not currently have a pension. However, it believes there are specific issues that must be addressed if the communication of the auto-enrolment process is to be effective and appropriate.

Individual circumstances

We believe that communications from NEST, or other qualifying schemes into which they may be auto-enrolled, must actively alert consumers to the issues they should be taking into account when making the decision to stay in or opt out, signposting to

[1] http://www.fs-cp.org.uk/publications/responses/2011.shtml

regulated advice or the Money Advice Service, where appropriate. These should explicitly include:

- The advantages of long-term saving
- The impact of employer contributions and tax relief on pension saving
- Proximity to retirement
- Other commitments including existing debt
- Likely interaction with the benefits system

There tends to be an assumption that it is in the best interests of most people to stay in (or join) a workplace pension where employers contribute and that it will generally be impossible to identify in advance the small number of people who are at risk of not benefiting from saving. We have some reservations about that assessment. There are groups of individuals who are likely to be better off saving in a cash ISA, or reducing their debts, than enrolling in a pension scheme.

On the other hand, there are those who would benefit from being in a pension scheme, but who choose to disproportionately prioritise current spending over saving for the future (the behaviour known as 'hyperbolic discounting'), and choose to opt out. This is, and should remain, their choice, but the consequences of the decision must be clearly communicated to them.

Additionally, those on low incomes and with no previous savings currently in their forties and fifties who are likely to be living in rented accommodation after retirement are at high risk of being worse off unless the current benefit system changes. We believe that further work is needed to identify the probable size of these groups and consideration given of how to reflect their circumstances in the programme of education and publicity.

Therefore it is important that information encourages people to think about their personal situation, rather than assuming that one outcome will work for all.

Incentives to opt out

The Panel agrees with the authority given to the Pensions Regulator to take action against any employer encouraging employees to opt out through inducements or coercion (including penalties of up to £50,000 or imprisonment of up to 2 years) and would encourage this policy to be robustly applied.

Employer advice

We are conscious that advising employers on their choice of pension scheme is not an activity regulated by the FSA or indeed the Pensions Regulator. We are concerned that this might become a significant regulatory gap in future and a source of indirect consumer detriment.

Managing expectations

The Panel has advised NEST that it needs to manage the expectations of the level of the ultimate pension income that contributors will receive from their NEST pension. People must be warned that they should not rely on a minimum contribution to NEST, or minimum contributions to other workplace schemes into which they may be auto-enrolled, to provide a good income in retirement,. They should be advised to consider additional measures including additional contributions to NEST or another qualifying scheme.

In conclusion, the Panel believes that the relevant authorities need to strike a careful balance to ensure that the appropriate people, and only the appropriate people, are automatically enrolled into pension schemes, and that they have access to the relevant information at the decision-making point.

Yours sincerely,

Adam Phillips
Chair, Financial Services Consumer Panel