Response by TISA to DWP call for evidence:

Looking to the future: Greater member security and rebalancing risk

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Supporting the financial journey through life

Our ambition is to improve the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA is a **not-for-profit membership organisation** and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. **We have over 270 member firms** involved in the supply and distribution of **savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on three strategic pillars of work to best support the consumer and UK financial services, TISA has become a major industry delivery organisation for consumer focused and digital industry infrastructure initiatives. Our three pillars of work remain at the forefront of everything we do:

- **STRATEGIC**
  Build **Strategic policy initiatives that influence policy makers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments.

- **TECHNICAL**
  Provide **expert technical support to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering ISAs, Consumer Duty, client assets, responsible & sustainable investing, operational resilience, vulnerable customers, governance, conduct & culture, plus a range of other areas.

- **DIGITAL**:
  To transform our industry architecture by building **digital transformation initiatives** that are driving ground-breaking innovation. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives, with projects including **Digital ID** and **Open Savings, Investments & Pensions (OSIP)**. This reflects TISA's commitment to open standards and independent governance.

More here**:** **https://www.tisa.uk.com/about-tisa/**

Executive Summary

TISA welcomes the opportunity to respond to the DWP Call for Evidence - Looking to the future: Great member security and rebalancing risk.

With member engagement in pensions remaining low, we welcome the continued focus on considering ways to increase member understanding and enhance retirement outcomes. Indeed, we already have several initiatives in the pipeline with a proposed Targeted Support guidance model, Pension Dashboards, Value for Money, the Decumulation framework and Small Pot consolidation all designed to collectively boost member understanding, engagement and promote pot and scheme consolidation.

Whilst we agree that having a single pension pot simplifies decision making and may increase member engagement, the existing raft of changes should be implemented and their effectiveness assessed, before introducing yet further change. These initiatives do have the potential to move the dial on engagement and retirement outcomes and as such, we cannot assess whether there will be a future need for a default lifetime provider model at this time. Furthermore, we should also consider how we can build on existing technology and frameworks to introduce an ongoing schedule of change designed to improve member outcomes before considering whether more fundamental reform is needed. An example being Pension Dashboards – whilst we agree with the current approach of adopting a basic model as a first iteration, there is the opportunity for future enhancements to allow transactional capabilities, including the ability to initiate transfers/consolidation.

It is hard to argue against the merits of empowering individuals to select their own workplace pension provider through a member-led model, indeed, the original 'pot for life' concept was founded on this basis. But looking at the Australian experience, take-up could be very low and the required infrastructure could be costly and complex to implement. It is important that it can be demonstrated that the scale of change is proportionate to the benefit this delivers and furthermore, that there is no adverse impact on Auto Enrolment and member outcomes more generally.

Long-term savings need long-term savings policies to create a framework which consumers can trust and allow them to invest money without fear that benefits will be reduced or removed before retirement is reached. Members have been subject to a high volume of changes which impact their retirement journeys and abilities to access money in recent years. The political nature of the pension framework does mean it is particularly exposed to change, at times without industry consultation or consumer testing, such as the introduction of pension freedoms and the abolition of the lifetime allowance. It is hard for consumers to understand the complexities of pensions and this is made even harder when the rules are constantly changing.

We believe there is merit in considering the creation of a Long-Term Savings Commission, which would have an objective aligned to its predecessor (The Pensions Commission) i.e. to evaluate the challenges that exist for consumers in saving for later life and the interaction between the various components which long-term savings comprise. Based on evidenced based research, the Commission would be responsible for working with industry and other relevant bodies to create a set of strategic recommendations, designed to improve long-term savings outcomes for the Government to consider.

We would welcome the opportunity to discuss our response with you in more detail.

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Question responses

Q1. What are the key considerations to take into account before deciding the process to implement a lifetime provider model and what elements would need to be in place?

Taking one step back, there are a range of factors which need to be considered before deciding whether we need a process to implement a lifetime provider model.

<u>Member outcomes</u>

Any change to the existing model needs to demonstrate that member outcomes are not adversely impacted and existing levels of protection are not reduced for any groups who are in the framework

The Auto Enrolment framework currently comprises of two regulatory regimes governed by The Pensions Regulator and the Financial Conduct Authority. It is important that all members experience the same outcomes and have the same levels of protections and opportunities. The interaction of these two regimes needs to be considered from a lifetime provider perspective, to ensure any regulatory requirements which lead to different journeys and outcomes can be addressed.

It is essential that member outcomes are the primary focus and it can be demonstrated that proposed changes will improve member outcomes.

<u>The lifetime provider model</u>

The model itself needs to be defined – it is hard to argue against the merits of empowering individuals to select their own workplace pension provider, indeed, the original 'pot for life' concept was founded on this basis. But looking at the Australian experience, take-up could be very low and the required infrastructure could be costly and complex to implement. It is important that it can be demonstrated that the scale of change is proportionate to the benefit this delivers and furthermore, that there is no adverse impact on Auto Enrolment and member outcomes more generally.

However, the Call for Evidence is focused on delivering a default model, where a workplace scheme is automatically selected for the majority who will not engage. This model moves away from member choice being the main policy driver, with automated consolidation being the primary aim. It is also not clear how a lifetime provider scheme would be automatically selected.

If the agreed lifetime provider model is deemed viable, subject to full industry consultation, this process should also determine when the appropriate time would be to implement it into the Auto Enrolment framework.

It is suggested that employers would have the power to exempt employees from selecting a lifetime provider where it is deemed the existing employer scheme provides more generous features. This protection needs to be considered carefully as in practice, an employer will not possess the skills to determine this, neither should the responsibility or potential liability fall on them.

We are unclear what the main objective is for implementing a lifetime provider model and would ask for clarification on this point.

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The impact of existing change

The industry continues to go through a period of extensive regulatory change with pipeline and forthcoming initiatives including a proposed Targeted Support guidance model, Value for Money, Pension Dashboards, Small Pot consolidation and the introduction of a Decumulation framework. These collectively have the objectives of driving forward scheme/pot consolidation and improving member outcomes, knowledge and engagement. Whilst the sequencing of these is crucial, it is equally as important that these are followed through to their conclusions and allowed to deliver on their expectations before we embark on yet further change.

Whether the objective of a lifetime provider model is engagement, choice and/or pot consolidation, these already form the basis of these initiatives. Once these existing initiatives have been implemented and there has been an opportunity to review their impact, it would seem prudent that if objectives are not met in full and the gaps can be met through a lifetime provider model, it is considered for implementation at that time.

A key ongoing initiative to consider, is the potential impact that the pension dashboard will have. Even in its first iteration, the pension dashboard will provide users with a total value of their pension entitlements. We know there is a positive correlation between higher pot sizes and engagement. Seeing the pension value in its totality, often for the first time is likely to trigger member-led consolidation for a group of savers. Taking this one stage further, future iterations of pension dashboards could introduce transactional capabilities, including the capability to facilitate the transfer of arrangements between schemes. In effect, this would be a member-led consolidation exercise which could include all pension pots. There is no greater risk involved in allowing pension dashboards to facilitate a consolidation exercise than there is in defaulting members pots into a pre-selected scheme. This approach would importantly be reusing existing technology, rather than requiring the creation of new technology such as a clearing house, which cuts down on implementation requirements, costs and timescales.

A detailed exercise needs to be undertaken to consider the interactions of these initiatives, the individual or multiple objectives they are designed to meet, the sequencing of them and expected timelines before considering a lifetime provider model further.

The longer-term strategy

As mentioned above, there are numerous initiatives which have all been introduced as standalone measures and cover off a range of objectives, some of which overlap and others which appear to be conflicting e.g. the move to a lifetime provider would largely discount the need for pension dashboards.

In order to consider building blocks, we first need to understand what the longer-term objectives are i.e. what does the envisaged pension landscape look like in X years' time? Once there is clarity, Government in conjunction with industry, can determine what solutions needs to be in place to achieve that end-state and also what those building blocks should be.

The longer-term strategy and objectives for the Auto Enrolment pensions framework and long-term savings more generally needs to be clearly communicated. The creation of a Long-Term Savings Commission could help develop this framework.

The employer impact

Auto Enrolment was created with the employer at its centre. Whilst not all employers have high levels of pensions participation within their workforces, it is important not to underestimate the member benefits that many provide.

Workplace research from various sources including the FCA widely indicates that employees typically trust their employers more than they do their pension provider. As such, the workplace forum becomes an important feature of the engagement puzzle for thousands of employees. Employers may:

- Run engagement sessions and offer access to free regulated financial advice.
- Work with their chosen workplace pension provider to distribute literature to help employees understand their pensions and the choices available to them.
- Employ EBCs to find the best provider for their workforce and often negotiate discounted fee structures or cover some of the cost themselves.
- Pay above or significantly above the minimum contribution level. Members should be protected to ensure employers cannot reduce their contribution level for employees who select their own lifetime provider.
- Fewer members of an employer's default scheme would mean higher running costs per head and lower bargaining power for the employer when choosing a scheme. Given that higher earners are typically more engaged with their retirement decisions and therefore more likely to be in a position to choose a lifetime pot for themselves, this impact may mean that those least likely to have built up significant pension savings, facing lower value for money for their contributions.

Engagement with a broad cross-section of employers is essential to understand the potential impacts a lifetime provider model would have.

Market impact

A default lifetime provider model is likely to lead over time, to the Auto Enrolment market comprising a handful of multi-employer providers. Member benefits associated with a thriving, competitive and innovative market including ongoing product improvement, higher value for money and the flexibility of choice are effectively lost. This could cause the market to stagnate, which counteracts the member benefits of improved engagement and retirement outcomes that the concept is designed to achieve.

Robust research is required to understand the potential impact a default lifetime provider model would have on the Auto Enrolment market and member outcomes over a prolonged period of time.

Whole of Life CDC

Whilst we understand the synergies that could exist between a default lifetime provider model and CDC, there remains a substantial amount of work that is needed before a whole of life CDC model can be defined, the potential member pros and cons understood and the regulatory requirements detailed that schemes would be subject to.

Given the scale of this work, it warrants a standalone approach and as such, should not form part of this Call for Evidence.

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Other considerations

There will be a long list of considerations where potential changes would be needed to accommodate a lifetime provider model. It is not possible to list these all out here, however we have included a small, non-exhaustive list below to highlight what this should include:

- The Master Trust regulations would need to be reviewed, as a single-employer trust scheme used for lifetime provider purposes would not be able to accept contributions from another employer based on existing regulation.
- The Pensions Regulator would need to be adequately resourced to cover the increased number of schemes which would fall under its governance, along with monitoring the marketing approach that schemes would operate to attract lifetime provider members.
- Schemes currently need to monitor contributions to ensure employers are paying the correct amounts and within the permitted timescales. If a member changes employer, the scheme will need to have details of the new contribution structure that is in place to continue monitoring ongoing contributions correctly. This also links to 'know your customer anti-money laundering regulations.' These require checks on the party making payments to a pension scheme, which will be the employer. We assume all providers will need to meet these requirements, unless it is a function of the clearing house who does it once per employer. If this is not the case, each provider would need to perform a check every time a new employer makes contributions to them.
- Currently schemes and employers currently operate a single contribution method – either Net Pay generally for Occupational Schemes or Relief at Source for Group Personal Pensions. A lifetime provider model would mean that employers would need to operate both within their payroll function, which could lead to significant operational and/or legislative changes being required.
- Employers will potentially need to make adjustments to their benefits. For example, many DC schemes offer death benefits under the same trust as the pension, conditional on pension scheme membership. Those who choose another scheme might lose these benefits (or options?), while someone who periodically partially transfers out would not.

A collaborative in-depth review of the value chain is required to identify all areas of the framework which may need to be changed or adapted to accommodate a lifetime provider model.

Q2. What are the alternative viable mass market vehicles, including CDC, that can provide security for members while spreading risk, and address the transition into a pension income?

Whilst we understand the synergies that could exist between a default lifetime provider model and CDC, there remains a substantial amount of work that is needed before a whole of life CDC model can be defined, the potential member pros and cons understood and the regulatory requirements that schemes would be subject to.

Given the scale of this work, it warrants a standalone approach and as such, should not form part of this Call for Evidence.

We are not aware of any alternative mass market vehicles that are currently available and appropriate to address the transition from accumulation into retirement.

Engagement is key here in helping members achieve better outcomes. As previously mentioned, there are a raft of initiatives which are currently progressing with collective aims of delivering on engagement, understanding and scheme/pot consolidation.

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Q3. What are the other considerations and building blocks that need to be in place before moving to a single lifetime provider, including any transitional arrangements?

In order to consider building blocks, we first need to understand what the longer-term objectives are i.e. what does the envisaged pension landscape look like in X years' time? Once there is clarity, Government in conjunction with industry can determine what solutions needs to be in place to achieve that end-state and also what those building blocks should be.

There has been a considerable Government focus on scheme consolidation and UK private asset investment by pension schemes, with the former complimenting the latter. However, whilst a shift in scheme default asset composition to include private assets may result in increased returns in certain market conditions, we need to be realistic about the potential impact this could have on members achieving pensions adequacy.

Whilst higher returns in the long-term will naturally generate higher pot values at retirement, it will not bridge the adequacy shortfalls that most members are currently facing. We need to focus more on contributions – existing levels will not generate pensions adequacy in isolation with many members sleepwalking into retirement entirely unaware until it is too late to change.

We have long advocated for an increase to minimum contributions levels to 12% on a matched basis, with increases being implemented on an incremental basis. There are also other approaches which could be considered such as auto escalation and mandated employer matching. Linking in with this is the ongoing work to advance the Auto Enrolment framework beyond what has been in place for several years. We should not lose the recent momentum in bringing in the changes to reduce the minimum age of eligibility to 18 and remove the lower earnings limit. It is also important that we build on the initial success and consider future changes to improve retirement outcomes and reflect an ever-changing socioeconomic landscape.

There needs to be a bigger emphasis placed on the importance that contribution levels have in achieving pensions adequacy.

Q4. What are the advantages and disadvantages of moving to a member-led lifetime provider model prior to considering introducing a default lifetime provider model?

It is hard to argue against the merits of empowering individuals to select their own workplace pension provider, indeed, the original 'pot for life' concept was founded on this basis. But looking at the Australian experience, take-up could be very low and the required infrastructure could be costly and complex to implement. It is important that it can be demonstrated that the scale of change is proportionate to the benefit this delivers and furthermore, that there is no adverse impact on Auto Enrolment and member outcomes more generally.

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Q5. What is the right timing and sequencing of these potential changes? Which part would best be implemented first and why, or should any be implemented concurrently?

The industry continues to go through a period of extensive regulatory change with pipeline and forthcoming initiatives including a proposed Targeted Support guidance model, Value for Money, Pension Dashboards, Small Pot Consolidation and the introduction of a Decumulation framework. These collectively have the objectives of driving forward scheme/pot consolidation and improving member outcomes, knowledge and engagement. Whilst the sequencing of these is crucial, it is equally as important that these are followed through to their conclusions and allowed to deliver on their expectations before we embark on yet further change.

It is not possible to determine whether a lifetime provider model is needed until these changes are implemented and the outcomes evaluated. These existing and forthcoming changes have the potential to move the dial on member outcomes and create a significant shift in what the workplace DC pensions market looks like and achieves for individuals and households.