Stephen Timms

Pushing for progress

Sophie Smith chats to Work and Pensions Committee (WPC) chair, Stephen Timms, about the committee's recent inquiries into saving for later life and its new focus on DB savings

The WPC published its report on saving for later life last year – the final of its three-part inquiry on 'protecting pension saving: Five years on from the pension freedoms.' How have you found the government response to the recommendations made by the WPC so far, and what reforms would you still like to see brought forward?

Our report on saving for later life welcomed the success of auto-enrolment (AE) in reversing the decline in workplace pension saving, with participation by eligible workers in the private sector rising by 44 percentage points to 86 per cent between 2012 and 2021. However, we found that there were clear challenges: Many people contributing at the auto-enrolment minimum are not saving enough for an adequate income in retirement and there are too many people not within the scope of AE who would benefit from saving in a pension.

Groups at particular risk of inadequate retirement incomes include women and people who are self-employed. In addition, there is a particular challenge relating to people now in their 50s without access to DB pensions, who have had limited time to build up pension savings through auto-enrolment.

The government has responded positively to some of our recommendations. We welcome the statement by Pensions Minister, Laura Trott MBE MP, saying that she wants to define the gender pensions gap and then monitor and report regularly on the issue. This will, of course, need to be followed by action, but it is an important first step. In other areas – such as self-employed pension saving – we will need to continue to push for progress.

The Department for Work and Pensions (DWP) recently backed a Private Member's Bill looking to extend AE to lower earners and younger workers. The 2017 AE reforms were also highlighted as a key recommendation by the WPC, with concerns around the government's ability to meet the mid 2020's deadline for this previously raised. Given this, do you expect this bill to be a faster approach to delivering on AE reforms, and do you think broader reforms, such as to minimum contributions, are still needed?

The committee found that there was near universal support for implementing the recommendations of the 2017 review of auto-enrolment: To reduce the minimum age from 22 to 18 and ensure contributions are paid from the first pound.

It was therefore disappointing that, despite repeated government statements supporting introducing these changes from the mid-2020s, it had produced no plan to do so. We therefore welcome DWP's recent decision to back a Private Members' Bill that would give the Secretary of State power to make these changes. The Pensions Minister said she wanted to consult on implementation and timing in the autumn *[further details on page 14]*. This is welcome progress, although we still don't know when the changes will be introduced.

Our report was clear that the government must go further to address the challenge of undersaving. New DWP analysis found that 38 per cent of working age people (equivalent to 12.5 million) are under-saving when measured against the Pensions Commission's measure of adequacy (an increase compared to the 12 million DWP estimated in 2017).

Many witnesses argued contributions needed to increase but that the midst of a cost-of-living crisis was not the right time. We heard that there was a good case for starting with employer contributions, which would reduce the risk of employees opting out. As we also said, there is a lot of work to do to make the case for this. Awareness of the extent of under-saving is low among employers and the wider public.

The government also announced a package of DC measures earlier this year that touched on a number of areas previously highlighted by the committee. Are you able to share any thoughts on the impact of these specific measures?

The committee has focused, in particular, on the need to ensure people get the information and guidance they need to navigate their options at retirement, which the Financial Conduct Authority (FCA) told us many consumers describe as a 'minefield'. We were disappointed that the DWP rejected our recommendation for a trial of automatic appointments of Pension Wise. We remain sceptical that the 'stronger nudge' will be effective in making take up of guidance 'the norm'. We will continue to press the DWP and the FCA on what it is doing to evaluate the stronger nudge and its plans to go further if, as we expect, this is needed.

We have also said that pensions dashboards have an important part to play in helping people engage with their pensions. The Pensions Minister recently announced that she had decided to reset the timetable and develop a new plan for delivery. It is clearly important to get this right but also to maintain momentum, so that dashboards can play their part in helping people save for an adequate income in retirement. I look forward to hearing more before the summer recess, as promised.

The committee has recently shifted focus away from DC with the launch of a new inquiry into DB pension schemes. What in particular is the committee hoping to look at within this, and will this be a single part inquiry, or can the industry expect further focus areas, as seen during the saving for later life inquiry?

We have just announced an inquiry on the future of DB pension schemes. We will be looking at whether the right regulatory framework is in place to enable open DB schemes to thrive. We also want to explore opportunities and challenges posed by increased scheme funding levels. What does that mean for the future of DB schemes? Does it provide opportunities to improve outcomes for pension savers, or members of compensation schemes, such as the Pension Protection Fund and the Financial Assistance Scheme?

Another theme will be governance standards and what can be done to improve them, particularly among smaller schemes, which are more likely to face challenges. In evidence to our current inquiry on DB pensions with liability-driven investments (LDI), for example, The Pensions Regulator said it wanted to see more opportunities for pension funds to consolidate, reducing the number of small schemes, but this had to be into safe vehicles. We will look at what framework is needed for this, and also at how to improve standards of trustee boards, where this is needed.

In particular, how will the recent LDI and DB pension scheme inquiry inform the new DB inquiry, and are you able to share any early insights from the LDI inquiry?

As discussed above, some of the themes for this new inquiry arose out of the evidence the committee has taken on LDI. We had the last evidence session on this inquiry on 22 March, hearing from the Minister for Pensions and the Economic Secretary to the Treasury. We have taken evidence on a range of issues, including how pension schemes manage their investment strategies and the challenges schemes with LDI faced during the September 2022 'gilts crisis'.

We have not yet agreed our report, but areas of interest include the role of pension scheme trustees as the 'first line of defence', and of the regulators and the Bank of England in identifying and managing systemic risks.

The committee has also examined the impact of accounting standards and the regulation of scheme funding and the implications for pension schemes and investment in the wider economy.

The issues arising out of this report, and our further inquiry on the future of DB schemes, will no doubt inform what the committee looks at next, but this has yet to be decided.

Written by Sophie Smith