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Direction of UK pensions a 'slow-motion car crash' – Webb

By Jack Gray 8/6/22

LCP partner and former Pensions Minister, Steve Webb, has described the direction of pensions in the UK as a "slow-motion car crash", especially for those caught between defined benefit (DB) pensions and auto-enrolment.

Speaking at a Work and Pensions Committee hearing on 'Protecting pension savers – five years on from pension freedoms' Webb noted that there was a generation of people in the 'middle' who were most at risk of not saving adequately for retirement.

"The problem is we have a generation of people in the middle, not my kids who are in their 20s who have 50 years of auto-enrolment to build up a modest pot on top of the state pension, not people in their 60s who lived through the golden era of DB pensions – many of them men in particular, but people who are in their 40s," he stated.

"They are the people who missed out on DB in large measures, who perhaps came to auto-enrolment at minimum contribution rates now.

“Frankly, the crisis is now. I have the highest regard for the superb work of the first pensions commission, but it was 15 years from the publication of that report to the completion of auto-enrolment. We do not have 15 years for this group.”

Webb, Baroness Jeannie Drake and former Pensions Minister, Baroness Ros Altmann, were asked to comment on whether the introduction of a new pensions commission would be beneficial.

Drake said that believed some kind of advisory body would be “right”, not in the same guise as the previous commission, but one that looks at the data and trends and regularly reports to parliament to enable a high level of understanding to inform public policy.

“Although the commission worked the first time, I don’t think another commission or similar is the answer,” added Webb.

“*[The 2017 Auto-enrolment Review]* was a mini commission. It was experts looking at the data, coming up with sensible, moderate incremental changes. Those changes aren’t enough.

“The other week at the Queen’s Speech, 38 pieces of legislation, nothing on this, so at best this is the 39th priority of the government. So, how do we get through this? Another commission, where good people with good hearts would gather data and come back together in three years’ time with some recommendations, probably not dissimilar to the 2017 ones? So what’s the problem? Is it that Guy Opperman doesn’t want to do this? Of course not, he’d love to do it today.

“If you want to crack pensions in this country, you hold the Treasury’s feet to the fire. If I had one recommendation for Stephen (Timms) and the committee, it’s that when you publish your report, join forces with the Treasury Committee and you get them on the hook with pensions tax relief.”

On the broader topic of pension adequacy and protecting savers, Altmann said that “part of the obligation needs to fall on the pensions industry itself, and so far we haven’t really seen enough of that”.

“Private pensions are a brilliant product, it’s just that most people don’t understand them because of the horrendously complicated jargon and complex rules,” she continued.

“But if you were to promote them properly and make them user-friendly, which you could do, then I think that could make an enormous difference.

“A radical thought that I would love to put to the committee is the consideration of making the minimum auto-enrolment contributions compulsory for everybody, which would remove the need for the Treasury to put tax relief in that first bit and the tax relief would then be concentrated on encouraging people to do more.

“The pensions industry would have a further vested interest in rising to the challenge of devising attractive messaging and products, reaching out directly to consumers and helping them take advantage of the extremely generous relief there could still be. For the self-employed, I think you’d have to involve a basic rate tax relief at least.”

On the issue of self-employed pension participation, Webb said that its level was “not only pathetically low, it’s falling”.

“One of the lessons from auto-enrolment is that mass action, defaults,” he added.

“So, for the self-employed we just need to use the tax return process. Two million self-employed fill in a tax return every year, it would not be hard to use that process to default them into a pension and they can opt out.”

TPR chief executive, Charles Counsell, spoke at a second session with the committee and agreed with Webb’s statement on ‘nudging’ self-employed workers to save for a pension through defaulting them during the tax return process.