



Simplicity, security
and choice:

Informed choices for working and saving –
a summary



Summary

1. Decisions about retirement – how much to save and how long to work – are some of the most important in people's lives. *Informed choices for working and saving* takes forward a central pillar of the pensions agenda.
2. The Pensions Green Paper¹ showed that many people are under-providing for retirement. It set in train plans to simplify pensions tax and regulation, to bolster pension security and give individuals access to new and more attractive options to save or work for longer. At the same time, the Government established the Pensions Commission to investigate whether we need to move beyond the existing voluntary system. Whatever the recommendations, it is essential that the voluntary element of the system works as effectively as possible for people.
3. The Government believes that given the right opportunities, people will plan ahead sensibly. But at the moment there are barriers to people exercising an informed choice. Information about pensions is widely available, but people do not know which sources to trust, or how the information relates to their circumstances. Many people are not aware of the implications that their working and saving patterns may have for their own retirement prospects.
4. Addressing this problem requires new attention from government and others in pension provision. We want to take forward a programme that is effective. This means working with our pension partners to test what interventions work, in what combinations, and at what time. It means applying best practice from experience in the UK and elsewhere.

Making the most of pension provision

5. In the Green Paper, the Government proposed simplifying the tax system and improving the choice of products available to individuals, to break down the barriers to saving. We are now pressing ahead with work on all these measures, including relevant provisions in the forthcoming Pensions Bill.
6. But there are still too many people who, because of a lack of understandable and trusted information, do not engage with the choices they have, and, as a consequence, make no choice at all. This is a very high-risk approach. We believe the public will be better served by a more fail-safe system where people are less likely to end up with severe under-provision purely because of inertia.

¹ December 2002, *Simplicity, security and choice: Working and saving for retirement*. Cm 5677.

7. We will work with partners, to explore different approaches, to establish which are the most effective in delivering increased pension saving in the UK. We will develop and test mechanisms for **increasing membership of employer-provided schemes**, for example:
 - **active decisions** – when new employees are required to make a decision whether or not to join their employer’s scheme;
 - **commitment to save more in the future** – where employees commit potential future earnings to their pensions savings; and
 - **automatic enrolment** – for new employees, but retaining an opt-out if they decide against membership.
8. In addition, we will take further steps to address the risks and under-provision that individuals too often face as a result of inertia. We will **examine proposals for new employees to make a default contribution into a stakeholder pension**.

Raising awareness and education

9. In the Green Paper, the Government recognised the need to improve basic financial literacy. People will only respond to the right information if they have been properly equipped to interpret it.
10. The Government will explore and develop ways to raise levels of financial literacy and capability. For example, we will:
 - look at ways to **strengthen personal finance in the National Curriculum**; and
 - **include financial education as a component part of our active labour market programmes** to help people understand that they forego future pension income, as well as current income, through not working.
11. Alongside these measures, we will work with employers to make it easier for them to promote good schemes. For example, we will:
 - pilot an information pack for employers, **making clear how they can safely give advice on pensions to their employees**;
 - **review regulations that inhibit providers from encouraging people to join schemes**; and
 - **work with the Employer Task Force to develop best practice guidance for employers** on considering pension options for their employees.
12. To support these measures, and the commitment of many good employers to pension provision in the workplace, **we will take powers in the forthcoming Pensions Bill to require all employers who do not actively support their employees’ pension saving to give them access to a decent standard of pension information in the workplace**.

Giving people the right information

13. In the Green Paper, the Government made it clear that, in order to change savings behaviour, individuals would need to receive clear information tailored to their own circumstances. We have taken action to:
 - build on the progress made by our partners in **providing Statutory Money Purchase Illustrations and annual benefit statements by beginning to issue state pension forecasts at regular intervals**; and
 - extend our combined pension forecast service, by working in partnership. However, we also plan to **legislate to allow us to require pension schemes to issue combined pension forecasts on a regular basis if we believe it to be necessary in the future**.
14. Alongside personalised information we want to give people the tools so that they can see how their savings behaviour will impact on their income in retirement. We are developing a **web-based retirement planner**, which will, for the first time, give people the opportunity to look at all their pension information together. The planner will allow people to view their total projected pension income from both state and private sources against their expectations for retirement, calculate any savings shortfall and consider options to address it.

Conclusion

15. The measures outlined in *Informed choices for working and saving* build on the existing strengths of the UK pension system and the action we are taking to reform occupational pensions and to do away with outdated, inflexible approaches to retirement. They will help to renew further the pensions partnership between government, employers, individuals, the financial services industry, trade unions and the voluntary sector. These measures will help to empower individuals to make their own decisions about retirement and the level of income they want in retirement.
16. This is an ambitious agenda, and one that we will develop further over time as we learn more about what influences people's behaviour in planning for retirement. The Government will work closely with all partners to make sure that, together, we maintain the momentum of reform for simplicity, security and choice in pensions.

This document is a summary of *Simplicity, security and choice: Informed choices for working and saving*. The full report (Cm 6111, February 2004) is available free from The Stationery Office.

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