House of Commons

Work and Pensions Committee

Protecting pension savers–five years on from the pension freedoms: Accessing pension savings: Government and the Financial Conduct Authority Responses to the Committee's Fifth Report

Seventh Special Report of Session 2021–22

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Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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Seventh Special Report

The Work and Pensions Committee published its Fifth Report of Session 2021–22, *Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings* (HC 237) on 18 January 2022. The Government's Response was received on 21 April 2022 and the Financial Conduct Authority Response was received on the 18 March 2022, both are appended below.

Appendix 1: Government Response

The government notes the Committee's Report of 18 January 2022.

The Committee's initial terms of reference set out the scope of the inquiry: to look at 'how savers are prepared and protected to move from saving for retirement to using their pensions savings'. The first stage of the inquiry considered pension scams, and what could be done to prevent them. This second stage of the inquiry focused on looking at the decisions that savers make about accessing their pensions. The inquiry looked at three areas:

- The options open to people when they come to access their pensions
- The advice and guidance which is available
- The information people need to make an informed choice about retirement products

Overview

Over recent years, the government, and Regulators, have taken and continue to take big steps forward in ensuring that savers have access to more information about their pensions, and how to access those savings safely:

- Through Pension Wise we introduced free, impartial pensions advice which can be accessed by the millions of people with a defined contribution pension to discuss their options.
- The Stronger Nudge to pensions guidance, which comes into force in June 2022, will ensure that members are strongly encouraged to take up Pension Wise guidance before accessing their pension. The aim is to present taking pensions guidance as a normal part of the pension application process and to require members to make an active choice to opt out of receiving guidance.
- Pensions Dashboards will revolutionise how people interact with their pensions by providing them with online access to their pension savings information on request, and with their permission, provide delegated access to Money and Pensions Service (MaPS) guiders and Financial Conduct Authority (FCA) authorised financial advisers.
- The FCA has introduced a variety of measures to support consumer decision making in response to its Retirement Outcomes Review, including new

requirements for wake-up packs, clearer charges information and investment pathways for non-advised consumers accessing their pension savings using drawdown.

- We plan to publish a call for evidence on decumulation within occupational pension schemes which will explore if trustees need new duties relating to decumulation, including whether there is a need to implement investment pathways.

- In 2018, The Pensions Regulator (TPR) and FCA launched a joint regulatory strategy and continue to work more collaboratively in exploring issues and where appropriate, consulting jointing on regulatory matters.

- A Departmental Review of the Money and Pensions Service (MaPS) was undertaken in 2021 in line with Cabinet Office guidance. The review found that MaPS was evolving into a 'more efficient and effective organisation' and that 'the statutory functions performed by MaPS are still required and best delivered by MaPS'. The Review identified 19 areas where MaPS could continue to improve its corporate structure and service delivery. These recommendations are currently being implemented by MaPS with the support of DWP.

<u>Options when accessing pensions</u>

Collective Defined Contribution (CDC) schemes enable members to share investment and longevity risks and ensure that employers have predictable pension costs. This means scheme members can receive an income in retirement that, whilst not guaranteed, should provide them with good value from the contributions they and their employer have made. Subject to Parliamentary approval of the secondary legislation and TPR's code of practice, single or connected employer collective defined contribution schemes will be able to apply for authorisation from 1 August this year.

The consultation on the draft CDC secondary legislation we undertook in summer 2021 confirmed there is considerable interest in extending CDC provision more widely to unconnected multi-employer schemes such as sector wide schemes and master trusts. We are holding discussions with interested parties about how CDC provision might be extended beyond the single or connected employer schemes we are currently legislating for.

<u>Supporting decision making at the point of access</u>

The Department for Work and Pensions (DWP) had begun, prior to the pandemic, tentative discussions with trust-based pension schemes, member representatives and industry representative groups to consider whether there is a need for equivalent requirements to Investment Pathways.

The government wants to understand what issues exist in relation to how occupational pension scheme members access their pensions and will therefore be issuing a call for evidence in May 2022. Where there is evidence to suggest that the same policy solution should apply, investment pathways, regulators and DWP will aim to align.

The government shares the committee's desire to see increased take up of the free, impartial guidance it provides through Pension Wise. However, we do not wish to compel those who do not wish or may not need to receive guidance into low quality interactions with the service. The Stronger Nudge to pension guidance, which we decided to strengthen from the version originally trialled, will ensure that individuals in scope will not be able to access their Defined Contribution pension savings unless they either receive Pension Wise guidance or express a firm and clear preference to opt out of guidance. It also enables schemes to offer to book members an appointment at the earliest point possible within the powers conferred by the Financial Guidance and Claims Act 2018, before they have made a final decision about access. We believe this approach gives strong encouragement towards those who may benefit from guidance to take up the offer of a Pension Wise appointment before accessing their defined contribution (DC) pension savings.

As part of the Departmental Review of MaPS carried out by Tom McPhail, recommendation 18 advised that MaPS should explore how Pension Wise can be evolved to achieve more efficient and effective outcomes. Work is being progressed at MaPS to deliver this.

We do not believe that it is appropriate to set a target figure for Pension Wise uptake, as we believe the decision to take up guidance is a personal one, which is affected by a variety of individual circumstances. We also do not support the trial of a system by which members are automatically booked a Pension Wise appointment. Alongside the cost concerns outlined by the government and others in oral evidence, we believe this intervention risks driving members towards pension guidance that may be inappropriate for them and risks further disengagement with guidance services.

<u>Pensions dashboards</u>

The government agrees with the Committee that pensions dashboards offer a significant opportunity to transform how savers interact with their pensions. Pensions Dashboards will provide consumers with online access to their pension savings information on request, and with their permission, provide delegated access to Money and Pensions Service guiders and FCA authorised financial advisers who have the relevant permissions under the Financial Services and Markets Act 2000 to advise on investments or conversion or transfer of pension benefits (under the Financial Service and Markets Act 2000 (Regulated Activities) Order 2001). This will enable people to identify lost pots and support better engagement with pensions. The government also agrees about the importance of getting good data from pension schemes and is working closely with the regulators, pension providers and administrators on this issue as part of its work to develop pensions dashboards.

<u>Supporting decision-making before accessing pension savings</u>

We have recently introduced Regulations to make Annual Benefit Statements for defined contribution schemes used for automatic enrolment much simpler and easier for members to understand. This will help increase engagement with pensions, and prompt people to seek further information and guidance.

To help individuals take stock of their planning for later life, DWP launched a basic online Mid-life MOT resource which brings together the wealth, work and wellbeing elements of the Mid-life MOT. The finance strand of the Mid-life MOT is intended to help people save for the later life that they want, enabling individuals to evaluate their personal situation and plan accordingly. The Mid-life MOT signposts to wider financial guidance such as MoneyHelper, to help individuals to access information on their financial options including issues around pension drawdown.

In April 2021 we ran ten 'digital discovery' tests with Local Enterprise Partnerships to test and evaluate localised approaches to delivery. We also established the Mid-life MOT Board in June 2021, chaired by the Minister for Pensions and attended by the Minister for Employment, to co-ordinate the approach to development, delivery and evaluation of a Mid-life MOT across the public and private sectors.

Workers over the age of 50 are also set to benefit from a new enhanced support package to help them to stay in and return to work. This new package will ensure older workers will receive better information and guidance on later life planning, helping them make informed choices and supporting them to plan their career and remain in work.

Select Committee recommendations

In the following paragraphs we address each of the recommendations the Committee has made. Although the report did not number them, we have done so in the response to help easily identify them.

Introduction

Recommendation 1: The Government and regulators have a role to play in ensuring that savers have the information and support they need to make good decisions about what they do with their pension savings. We recommend that the Government and regulators should play a more active role than they did when the pension freedoms were first introduced.

Government response: The government is fully committed to providing savers with the relevant information and support in order for them to make appropriate decisions when they access their pension. Until we know more about what is already on offer and the expectations of occupational scheme members, it would not be appropriate for government to intervene. That is why DWP intends to issue a call for evidence in May 2022.

The government engages and works closely with regulators and industry to try and ensure individuals can make decisions which are best for their circumstances.

Pension Wise was introduced to ensure savers had access to free, impartial guidance to help them make informed decisions regarding their pension savings. Additionally, we anticipate that pensions dashboards will help savers navigate their pension with increased confidence.

DWP is already playing an active role in ensuring savers have the information and support they need. This involves implementing a number of new measures including:

- Improving clarity and consistency in communications from schemes and providers to savers, through requiring certain schemes to deliver the Simpler Annual Benefit Statement.

- Pensions Dashboards will provide information about an individual's total pensions saving on demand and, with their permission, to guiders and advisers. This will better equip savers to engage with key decisions about saving into and accessing their pensions.
- DWP's Mid-life MOT initiative will also create awareness and help people make informed decisions, some way out from decumulation.
- DWP's Stronger Nudge policy is designed to further increase take up of guidance by requiring providers to offer to book an appointment for the saver.

The government will continue to review the ways in which it can improve the support offered to individuals.

The TPR's corporate strategy sets out their commitment to put the saver at the heart of all that they do. They are committed to continue to work with other regulators, government and trustees to improve savers' access to helpful information, guidance and, where appropriate, advice.

<u>Options when accessing pensions</u>

Recommendation 2: We recommend that regulators should carry out a scoping exercise to establish the research and testing which could be undertaken on decoupling the 25% of a pension pot which is tax free from the rest of the pot and present their findings to our Committee.

Government response: The Pension Commencement Lump Sum (PCLS) forms part of tax policy and any changes are for the government to consider, rather than the regulators. The government's overriding objective in providing generous tax relief for individuals to build up pension savings is to enable them to benefit from an income in retirement. This tax relief cost the government £61bn in 2019–20. Decoupling the 25% tax-free lump sum may encourage members to access their lump sum earlier than they would do otherwise and without seeking advice on the best approach to ensuring that their pension provision is sufficient for their retirement. In principle, it is unlikely to be in the individual's long term financial interests to take out their PCLS before they need to access their pension for the purposes of providing income for retirement. For this reason, the government does not believe that it is appropriate to make changes to tax policy to make it easier for individuals to do so.

There are also potentially significant policy and practical issues with separating a member's PCLS from the taxed portion of their pension pot. It would require major changes to pension tax legislation. Such changes inevitably bring a level of complexity, even where it is possible to limit this to the period of transition to a new system and managing any ensuing tax avoidance risks. Such complexity is unlikely to be welcomed by consumers or the industry.

In addition, in order to ensure that the member has not taken more than 25% of their pension pot or their lifetime allowance, decoupling the tax-free amount would impose additional requirements on scheme administrators to maintain records of how much had been claimed by the member. Further, it would likely make it more complex for the member to understand and predict their tax position in future and risks making the system more difficult for members to navigate.

The government remains concerned that individuals may see their retirement outcomes negatively impacted if they choose to access their PCLS early without taking informed decisions relating to the remainder of their pension pot.

For the reasons outlined above the government wants to understand what issues exist in relation to how occupational pension scheme members access their pensions and will therefore be issuing a call for evidence in May 2022.

Recommendation 3: We recommend that the Money and Pensions Service and the Financial Conduct Authority should develop proposals to increase the number of people choosing a mix of retirement products—including cash, drawdown and deferred annuities—to meet their changing needs at different stages of later life.

Government response: We understand that MaPS and the FCA will be responding to this recommendation separately.

Recommendation 4: We recommend that the Government publishes a framework for assessing the success of the Royal Mail CDC scheme and other early schemes. The Royal Mail scheme is likely to be the first of its kind under the Pension Schemes Act 2021. We anticipate other employers and organisations will want to learn from this scheme.

Government response: We welcome the Work and Pension Select Committee's interest and support for the work we are taking forward to explore the ways in which CDC provision might be extended beyond the single or connected employer schemes we are currently legislating for.

The draft affirmative regulations needed to implement single or connected employer CDC schemes were debated in Parliament in January and have been approved. The draft negative regulations have also been laid before Parliament and both sets of regulations are now in place to come into force on 1 August 2022.

We are continuing to hold individual discussions with a number of interested parties to seek their input on the ways they consider CDC could be extended including to unconnected multi-employer CDC schemes, Master Trusts and decumulation vehicles. We also held an event with the CDC forum established by the Royal Society of Arts, Manufactures and Commerce on 28 March. The Minister for Pensions & Financial Inclusion underlined his commitment to progress this work given the potential benefits CDC could bring to many more savers and employers. The Minister made clear that we want to collaborate with those parties who are actively pursuing alternative CDC models to help us develop a potential policy approach for extending CDC to multi-employer schemes, Master Trusts and decumulation vehicles. The Minister also agreed with the Committee that it will be important to work through the potential risks and implications of any potential extension to ensure that we get this right and said that the Department aims to consult later this year on the appropriate way forward for the broadening of CDC provision.

The government has made it clear that it will monitor the operation of the first CDC schemes with TPR to ensure the legislation works as intended. This includes considering the performance of these schemes, their effectiveness at providing pension incomes and any equality considerations that we identify. In addition, our legislation will require schemes to set out and report on their on-going viability informed by actuarial testing and modelling. This will enable TPR to assess a scheme's ability to provide the level of income it aspires to on an on-going basis.

We also plan on engaging proactively with employers, workforce representatives and schemes to identify any issues they are having around the new CDC regime as it beds in and seek views from schemes and the Regulator to provide assurance on the effectiveness of the authorisation framework.

Recommendation 5: We recommend that the Pensions Regulator works with the Royal Mail to develop a toolkit for other employers looking to set up similar schemes.

Government response: TPR has recently published the code of practice for CDC pension schemes for consultation. They will also look to publish guidance as appropriate to support trustees. Whilst the code of practice is primarily for trustees, they think that the code and any further guidance could also be used by employers and their advisers in understanding the requirements of setting up a CDC scheme. They do not consider that a toolkit would be able to go further than the code in setting out the requirements to establish a CDC scheme. While initially CDC schemes will be limited to those set up by single employers, or two or more connected employers, the Pension Schemes Act 2021 contains powers to enable further developments of the CDC market, such as multi-employer schemes. DWP looks forward to working with the TPR and industry on any development and expansion of CDC schemes.

Recommendation 6: For CDC schemes to provide a realistic alternative to annuities, people with defined contribution pension pots need the option to be able to transfer to decumulation only CDC schemes. In future these may be available through master-trusts regulated by the Pensions Regulator. **We recommend that the Financial Conduct Authority consider whether there is also a case for developing contract-based CDC schemes and publish its findings.**

Government response: We understand that the FCA will be responding to this recommendation separately.

<u>Supporting decision making at the point of access</u>

Recommendation 7: We recommend that all consultations covering pension regulation should be run jointly by the Pensions Regulator and the Financial Conduct Authority unless there is a clear and published reason for a different approach.

Government response: The principle of joint consultations, where appropriate, underpins the work of TPR and FCA and the Department supports this goal wherever opportunities permit.

Since the publication of their joint strategy, TPR and the FCA have worked more collaboratively in exploring issues and where appropriate, they have consulted jointly on regulatory matters. For example, in the last 12 months they have consulted on a discussion paper on value for money, looking at how to develop a consistent approach to assessment of value across the industry. They also launched a call for input on the consumer journey to explore what more they, as regulators, in partnership with industry, can do to encourage savers to better engage with their pension saving. Where initiatives might vary in scope or timelines between the regulators it is not because they haven't been thought of collegiately, but because of the real and practical differences between the make-up of the markets they regulate. Both regulators aim to achieve alignment where appropriate and whilst there may be some differences in approach, both are seeking the same outcomes.

DWP intend to issue a call for evidence in May to consider what members of trust-based schemes want in terms of information, support and possibly products to support them make informed decisions about how they access and use their pension savings. Both regulators have been involved in the development of the call for evidence.

DWP is grateful for TPR's support for our plans to publish a call for evidence on decumulation within occupational pension schemes to explore if there should be new duties for trustees relating to decumulation, including whether there is a need to implement investment pathways. Both TPR and the FCA have shared findings from their joint Consumer Journeys call for input with DWP to inform this work. DWP is also grateful for TPR's support on the alignment of wake-up packs with the changes that the FCA implemented in 2019.

Recommendation 8: We recommend that investment pathways should have the same form for contract based and trust-based schemes.

Government response: We acknowledge at present that there is little information on the decumulation products providers offer in the trust-based marketplace. There is also little evidence of engagement with members about the level of support they would want from their pension provider. Until we know more about what is already on offer and the expectations of occupational scheme members it would not be appropriate to simply introduce, into trust-based schemes, similar requirements to investment pathways. That is why DWP intends to issue a call for evidence in May 2022.

DWP is grateful to TPR for their commitment to work with us on the call for evidence and for their support for working to explore if there is merit in introducing default retirement pathways for members of occupational pension schemes. Investment pathways was introduced by the FCA as a result of issues they identified in the non-advised drawdown market. This only took effect in February 2021 and it is important to consider findings from the FCA and industry as to its effectiveness. Drawdown and other decumulation options from occupational pension schemes is a less developed market and therefore they agree that a call for evidence will inform whether similar or different policy interventions are necessary to support savers in occupational pension schemes.

Recommendation 9: There is a charge cap for savers who default to a scheme through auto-enrolment. **We recommend that there should be a similar charge cap for non-advised savers choosing a decumulation product through investment pathways. The Financial Conduct Authority should report on this as part of its upcoming review on investment pathways.**

Government response: We understand that the FCA will be responding to this recommendation separately.

Recommendation 10: We recommend that the Government sets a goal for the Money and Pensions Service for the combined use of Pension Wise and paid-for advice when accessing pension pots for the first time. This goal should be at least 60 per cent and expressed in terms of individuals rather than pots. It could include an exemption for smaller levels of saving.

Government response: The Government does not support setting a goal for the combined use of Pension Wise and paid-for advice when accessing pots for the first time. However, in light of Tom McPhail's 2021 Departmental Review of MaPS, we are encouraging MaPS to evolve the Pension Wise service and innovate to better achieve effective and efficient outcomes.

In 20/21, 55% of pension pots accessed within the contract-based market, excluding those worth less than £10,000, were accessed after the use of Pension Wise or financial advice.

From 1 June 2022, new Regulations implementing a Stronger Nudge to pensions guidance (the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022) will be in force. These Regulations will require pension schemes to offer to book a Pension Wise appointment on behalf of the member (or other relevant beneficiary), when they seek to access, or transfer with the intention of accessing, their defined contribution benefits. Trials showed this will further increase the take up of Pension Wise guidance. The FCA are bringing in corresponding rules implementing a Stronger Nudge to pensions guidance in the contract-based market.

The government does not support setting a target proportion of members utilising advice or Pension Wise guidance. The decision to use advice or guidance will depend upon individuals' circumstances and should be understood within context. This decision will be affected by, for example, an individual's levels of financial literacy, the other sources of information and guidance they may have utilised, and the makeup of their pension savings. We are committed to ensuring individuals have the support and information they need to make informed choices about their financial futures, striking the right balance between providing vital protections for pension savers, while also giving them freedom and choice over how they use their hard-earned savings.

Recommendation 11: We recommend that automatic Pension Wise appointments are trialled. The Government should initiate two trials: one with an appointment when a person accesses their pension for the first time and another at the age of 50, before they can access their pension savings.

Government response: We disagree with the proposal to automatically book Pension Wise appointments. We believe that there are significant issues with this approach, both at age 50 and at the point of first access.

It is important to note that Pension Wise is just one of the pensions guidance services offered by MaPS. MaPS also provides pensions guidance through its MoneyHelper pensions guidance helpline. This provides individuals of any age with guidance on all areas of UK pensions, through its phone, email, and webchat service. In addition to the 113,000 Pension Wise appointments attended in 2020–2021, MoneyHelper Pensions helped over 220,000 people.

Pension Wise guidance is aimed at those who are actively considering how to access their defined contribution pension savings. At age 50, it is likely that most members will not be considering how to access their defined contribution savings. As such, automatically booking members a Pension Wise appointment at age 50, when these members are not the target market for this guidance, is not the right approach.

Referring members to Pension Wise at the wrong time also risks a number of negative outcomes. For example, referring members to guidance focused on decumulation, at age 50, may encourage members to access their savings earlier than appropriate for them or may cause disengagement with guidance if interventions are not sufficiently targeted.

The Regulations which implement the Stronger Nudge to pensions guidance, which come into force in June 2022, will ensure that members in scope are strongly encouraged to take up Pension Wise guidance before accessing their defined contribution pension benefits. When such a member intends to access their pension, the scheme will be required to offer to book a Pension Wise appointment on the member's behalf, at a time and date suitable for the member. Where the member wishes to opt out of receiving Pension Wise guidance, they will need to make an active, informed decision to do so, unless an exemption applies.

This approach successfully ensures that members will not default out of receiving Pension Wise guidance, and that only those members who have expressed a firm preference not to receive Pension Wise guidance will access their pension without receiving it.

The proposal to automatically book members an appointment when they seek to access their pension savings, instead of offering to book members an appointment at a time and date of their choosing as is required by the Stronger Nudge Regulations, would be unlikely to lead to any increased engagement with guidance. It would not successfully utilise inertia, compared to the Stronger Nudge proposals, as members would still need to take action to engage with and attend a Pension Wise appointment. It would also introduce significant additional issues, such as individuals having multiple appointments booked on their behalf, and increased costs caused by missed appointments. Consideration of further possible nudges or referrals to guidance at the point a member requests to access their pension savings should be informed by assessing the success of the Regulations on the Stronger Nudge to pensions guidance.

We are actively considering methods of further encouraging early engagement with pensions guidance. It is important to gather evidence and insight to inform future policy measures.

Recommendation 12: We recommend that aggregating and individual savers, rather than pots, becomes a key priority for the FCA, the Pensions Regulator and the Department for Work and Pensions. As a matter of urgency, so as not to delay the programme, the Department for Work and Pensions should work with the Pensions Dashboard Programme to establish whether pensions dashboards may be a route for doing this.

Government response: We will consider this recommendation in more detail. DWP is part funding, and sits on the steering group of, a Pensions Policy Institute DC data project to provide individual-level data of pension provision across a number of Automatic Enrolment schemes; specifically, the number of pension pots held by a member, contributions and pension fund size. This is a data amalgamation project, using real data for individuals saving, or having saved, into a pension in the UK. It will link the various pension pots which individuals have with different providers, to create a single combined data set that tells us how people are saving for their retirement.

The government set out in its response to the dashboard consultation in April 2019 the key design principles that must be adhered to when designing the system. We made clear that the storing of pensions data, beyond caching for performance reasons, will not be allowed in the initial phases of dashboards. We also said that there would be no aggregation of an individual's information in any part of the ecosystem other than by the pension scheme or an Integrated Service Provider operating on their behalf and in respect of the benefits built up in that scheme.

The process of accessing information on dashboards rests on the consent of the individual using dashboards. The nature of an individual's consent must be clear, explicit, understood and informed. This is explored in further detail in the recently published consultation on the draft Pensions Dashboards Regulations.

Our approach is designed to maximise data security and privacy while the new system beds in. Therefore, the dashboards digital architecture would not be able to facilitate the aggregation of individuals' data to support wider research or policy intervention.

MaPS is developing a retirement planning hub in which it will incorporate its own pensions dashboard. This will be used to help support people with personalised guidance at every stage of their pension journey.

Recommendation 13: We recommend that the Government should report annually on progress and plans to increase the uptake of pensions advice.

and

Recommendation 25: The Government, regulators and the Money and Pensions Service are introducing multiple policy interventions to support the pension freedoms. Six years on there remains no framework against which to evaluate the success of the freedoms or make judgements about the need for—or effectiveness of—support interventions. Our predecessor Committees have asked three times for the Government to improve its monitoring and reporting on the progress of the pension freedoms. **We recommend that the Department for Work and Pensions and the Treasury jointly produce an annual assessment evaluating these measures holistically**. We would expect several of the recommendations we have made in this report to appear in that publication, including: usage of Pension Wise and paid for advice, the progress of reviews and research being undertaken by regulators, the state of policy development by the Government, and the support available to individuals and schemes.

Government response: The government recognises the importance of enabling people to make the right financial decisions at all stages in their lives. HM Treasury works closely with the FCA to ensure that the financial advice market works well, competitively and fairly for both firms and consumers, and that the advice being provided is of high quality, including for pensions advice.

The government already requires individuals who are transferring a DB pension of over £30,000 to take advice before making a transfer. Following the evaluation of the Financial Advice Market Review in December 2020, HM Treasury and the FCA are engaging closely to tackle the remaining policy challenges in the UK's financial advice market.

There is already a considerable amount of reporting that takes place on the functioning of pension freedoms more widely. The FCA publishes Retirement Income Market data annually which reports on a range of pension data, including access rates, use of advice, pension transfers and the types of annuity options sold. Annual reporting on pension freedoms is also published by HMRC, and research has been produced in recent years that specifically examines pension freedoms, including DWP's qualitative research study of individuals' decumulation journeys that was published in October 2020. Pension Wise quarterly data and satisfaction surveys similarly show progress of pension freedoms and the individuals using the government's guidance service. Information specifically on take up of pensions advice is also available and can be shared through existing channels and the range of organisations which support consumers accessing pensions advice.

At this time, the government therefore believes that an annual assessment of pension freedoms and annual reporting of its work in relation to pensions advice is not necessary. There are clear challenges to bring together meaningful reporting on an annual basis in addition to what is already available. Further work is also needed on how to provide a valuable evaluation on pension freedoms when taking into account the fact that what is considered an appropriate use of an individual's retirement provision will vary dependent on individual circumstances.

The government will continue to monitor and analyse the evidence produced surrounding pension freedoms. We work closely with the regulators, the industry and consumer groups to scrutinise the impact of pension freedoms and to consider whether further interventions are necessary, and we will keep this recommendation under review.

Recommendation 14: We recommend a full review and overhaul of the Pensions Advice Allowance (PAA). The Government should:

a) Remove the annual limit on the PAA

b) Uprate the overall PAA in line with inflation each year c) Encourage MaPS and advisers to signpost the PAA d) Explore triage options to avoid use of the PAA by those for whom it is poor value, such as many DB savers or those with small pension pots.

Government response: The government believes that individuals should be trusted with their own hard-earned savings and have a choice about how to access their pension income.

The government introduced the Pensions Advice Allowance (PAA) in 2017 in response to the Financial Advice Market Review published in 2016. HM Treasury and the FCA continue work to monitor the take-up and effectiveness of the Pension Advice Allowance in the context of wider work to address the outstanding policy challenges in the UK's financial advice market.

Amending the level of PAA would depend on the changes that were being made. The regulations which established the PAA are part of the 2017 amendments to the Registered Pensions Schemes (authorised payments) regulations 2009 which sets out the conditions for the PAA payment including that the payment does not exceed £500. Therefore, if we were to make any changes it would likely require amending this legislation through a statutory instrument.

We continue to monitor the uptake of the PAA to understand the success of the scheme. The government is keeping the level of PAA under review and continues to assess how well it is working, including considering any next steps following the evaluation of the Financial Advice Market Review in 2020 led by the Financial Conduct Authority (FCA).

Recommendation 15: We recommend that the Financial Conduct Authority uses the definitions below of enhanced guidance and limited advice:

a) Enhanced guidance: guidance on the options available which is tailored to an individual dependent on the information they provide, without a recommendation. This is not a regulated activity.

b) Limited advice: a recommendation made to an individual based on limited or partial information about them.

The Financial Conduct Authority should provide examples to the industry to encourage the wider offering of enhanced guidance and limited advice to the fullest extent allowed by the existing law.

Government response: We understand that the FCA will be responding to this recommendation separately.

Recommendation 16: We recommend that the Money and Pensions Service offers enhanced guidance, under our proposed definition, through its pensions services. We also recommend that the Money and Pensions Service establishes an industry group to develop best practice proposals and templates for offering enhanced pensions guidance.

Government response: The Money and Pensions Service provides tailored guidance to individuals, based upon the information they provide. For instance, MoneyHelper Pensions (previously known as The Pensions Advisory Service), already provide specialist pensions and divorce appointments and pension rebuild appointments for people who have lost their pension savings and need to rethink their options to rebuild or maximise savings. Pension Wise provides guidance tailored towards individuals, aged 50 or above, who are considering how to access their defined contribution pensions savings.

The government supports MaPS' guidance transformation strategy, which will seek to triage members towards the guidance service most appropriate for them and increase the flexibility of Pension Wise so that it may more be more effectively tailored towards an individual's needs.

Recommendation 17: We recommend that the Pensions Regulator, Financial Conduct Authority and Money and Pensions Service produce a plan to increase the number of schemes and employers using the tools they provide. As far as is possible they should aim for consistency across trust based and contract-based pension savings. The plan should stress the importance of scheme members shopping around before deciding to buy a new product from their incumbent provider.

Government response: TPR and the FCA promote the tools available from MoneyHelper in their employer and trustee guide on providing support to members on financial matters.

They will continue to work with partners to explore ways to promote the tools and guidance services of MoneyHelper to savers. For example, their joint call for input on the consumer journey will also provide useful insights into how they can engage employers to support their employees in understanding and engaging with their pension as part of their financial wealth.

Recommendation 18: Most guidance is currently delivered by individuals, which is costly, or through written communication, which is unengaging. In future we envisage a significant proportion of guidance or triage services will be delivered through digital tools. This should be a key consideration in the implementation of the recommendations we have made to regulators and the Money and Pensions Service.

Government response: The Government agree that digital tools have an important role to play in the delivery of guidance and encourage MaPS to go further in developing its digital offer.

MaPS currently offer a self-serve digital journey, alongside digital tools such as retirement income and workplace pension contribution calculators. The government supports MaPS' guidance transformation strategy, which includes work by MaPS to develop a digital Pension Wise appointment. MaPS is also exploring how it can implement the delivery of more efficient, accessible and impactful financial solutions, as outlined in recommendation 17 in Tom McPhail's 2021 Departmental Review of MaPS.

It is important to remember that some people, especially those who are financially vulnerable or have limited access to digital devices, may need additional support. Alternatives to digital guidance remains an important requirement of the services offered by MaPS.

Dashboards

Recommendation 19: When pension dashboards launch it will not be possible to undertake any transactions through them. We understand why some people are calling for transactions to be facilitated through pension dashboards. However, with dashboards a long way from reality and a need to build trust in the system, **we recommend that no consideration is given to allowing transactions through dashboards until they are well established**.

Government response: It is important to establish trust in dashboards as they are introduced, and until they are, that transactions should not be enabled. We have taken the position that they will start with a basic level of information, with the potential to include more detail or functionality as our understanding of consumer needs develop. We have been clear throughout that in order to develop a digital service that is safe, useful and relevant to consumers, future enhancements to dashboards functionality should not be decided before the initial offer has been tested with users and any behavioural effects are understood. This means that transactions will not be possible on the initial version of dashboards.

Recommendation 20: Many savers will have built up a number of small pension pots, which would benefit from consolidation. However, the issue of small pension pots cannot be solved simply by encouraging savers to change their behaviour to proactively consolidate their small pension pots. The Committee would expect to look closely at the recommendations about consolidating small pension pots which are expected to be made to the Department for Work and Pensions by an industry working group as they are developed and published.

Government response: The growth in the number of deferred small pots in the automatic enrolment (AE) market and the impact on the consumer is an issue the government is determined to address. Our aim is to make the consolidation of deferred small pots the norm within the AE market. This would support an efficient, competitive workplace pensions system and provide better value for consumers. This is a complex issue, however, which will not be fixed through a single solution. Member-initiated consolidation has a clear role to play. We are taking action through Pensions Dashboards and Simpler Annual Benefit Statements to make it easier for savers to keep track of their pensions, including small pots – such tools that allow members to view all pots with different providers in a way that is understandable and could facilitate more consolidation in future. Alongside this we have taken action to protect savers through a de minimis on flat fee charges, which will protect individuals from unfair charges and reduce erosion of small pots.

We recognise that automated solutions would be needed alongside member-initiated consolidation, but we need to be confident that the appropriate administrative system can be put in place to deliver this – in particular, this includes how to enable a low-cost mass transfer system in the AE market with proportionate safeguards for consumers. The department is working closely with the ABI/PLSA-led industry coordination group which is actively progressing the necessary detailed work and feasibility analysis on this to inform consolidation solutions and the underpinning administrative systems – including the parameters governing small pots in scope for consolidation – so that solutions provide overall net value for automatically enrolled savers. We understand that the ABI/PLSA coordination group expect to report on progress in May 2022.

Recommendation 21: We recommend that the Money and Pensions Service should develop a guidance service—possibly a future iteration of Pension Wise or the midlife MOT—which supports savers by using the data available through their pensions dashboards. It is important that these services are considered now, before dashboards are launched.

Government response: Individuals wishing to use dashboards will be able to delegate access to MaPS guiders or authorised financial advisers who have the relevant permissions under the Financial Services and Markets Act 2000 to advise on investments or conversion or transfer of pension benefits (under the Financial Service and Markets Act 2000 (Regulated Activities) Order 2001). The MaPS dashboard will also be integrated into the MaPS retirement planning hub all of which will better enable MaPS to tailor guidance interventions according to individual needs and will help savers to see in one place what they have and help facilitate a Pension Wise appointment.

Recommendation 22: A pension statement season would be a short period each year when schemes were required to send savers annual pension statements. We are not convinced that the gains from a statement season will justify the complexity of introducing it. In our view, the measure is at best a stopgap until pension dashboards are available. Given the likely cost and disruption to the industry, **we recommend that the Government be prepared to adapt or drop its proposal for a pension statement season if the benefits cannot be robustly demonstrated**.

Government response: We want to ensure that people have a general awareness of pensions, know about the importance of planning for retirement, and have access to the information they need to do this.

We welcome the industry led campaign for Pensions Engagement Season, starting in September 2022, aligning messaging across the sector and supporting savers to engage with their pensions.

We recognise the challenges of delivering a statement season. However, the current system is sub-optimal for members and DWP believes that there is more that can be done. We will continue to look at ways that we can prompt people to engage with their pensions, including what role annual benefit statements can play.

Recommendation 23: For the "my money" part of the midlife MOT, we recommend that the Department for Work and Pensions, supported by the Money and Pensions Service, undertakes research to:

a) Develop the most effective format(s) for midlife MOTs;

b) Establish the most efficient delivery route for midlife MOTs; and

c) Maximise the take up of the midlife MOT.

Government response: The department is working closely with the Money and Pensions Service, supported by the wider Mid-life MOT Board, to test both the most effective format(s) for Mid-life MOTs and the most efficient delivery route for Mid-life MOTs, building on the findings of the 2021 Local Enterprise Partnership Digital Delivery tests. On this basis, the Money and Pensions Service are looking to develop a financial Mid-life MOT, with input from the department and the wider Mid-life MOT Board and looking at best practice and examples such as AVIVA who have already successfully developed and piloted a Mid-life MOT.

In the Budget 2021, the Chancellor announced a package of support for older workers, which will help older workers to stay in and return to work. This new package will ensure older workers will receive better information and guidance on later life planning, helping them make informed choices and supporting them to plan their career and remain in work. Measures will include trialling Midlife MOT activity in both Jobcentres and the private sector.

<u>**Wider Government Policy**</u>

Recommendation 24: We support the Government's intention to make pensions simpler. Recent policy changes to the normal minimum pension age have highlighted the difficulties of achieving this and we are disappointed that these changes have made making decisions about accessing pensions even more difficult. Savers take a working lifetime to build up pension savings, through many changes of policy and Government. We urge the Government to do everything in its power to ensure that future changes do not bake additional complexity into the system for decades to come. **Where additional complexity is inescapable, we recommend that any Government consults early, thoroughly and aims to achieve cross-party consensus**.

Government response: The government acknowledges the benefits of timely and thorough consultation, and in achieving cross-party consensus where possible about the matters being legislated upon. As announced in 2014, the NMPA will rise to 57 in April 2028 but those who have unqualified rights to access their pension below that age will have those rights protected. This proposal was set out in a 10-week consultation in early 2021 followed by a consultation on draft legislation in summer 2021. It represents a careful balance between the importance of making decisions around pensions as simple and comprehensible as possible and the importance of protecting individuals' existing rights.

Appendix 2: Financial Conduct Authority Response

I am writing in response to the publication of the Committee's 18 January report *Protecting pension savers – five years on from the Pension Freedoms: Accessing pension savings*. We welcome the Committee's report and share your aim of improving the outcomes savers receive when accessing their pension savings. I will address in turn each of the report's recommendations that concern the Financial Conduct Authority (FCA).

The Government and regulators have a role to play in ensuring that savers have the information and support they need to make good decisions about what they do with their pension savings. We recommend that the Government and regulators should play a more active role than they did when the pension freedoms were first introduced.

We agree that consumers face complex decisions when they seek to access their pension.

Government and regulators have different roles to play in this area. Ultimately the pensions legal framework is for the Government, but we will continue to contribute insights from our own interaction with pension providers and their customers to help shape any changes and help ensure the consumer is at the centre of any proposed legislative changes.

We are working closely with the Department for Work and Pensions (DWP), The Pensions Regulator (TPR), the Money and Pensions Service (MaPS), and others to identify the interventions that help ensure consumers are supported throughout their pensions journey, regardless of pension type.

Since the introduction of the pension freedoms, we have placed several requirements on pension providers to help consumers make decisions about which option – or options – to choose when accessing their pension savings. Many of these have been driven by our Retirement Outcomes Review. These include:

- earlier and more frequent wake-up packs, which must include a single page summary and risk warnings at age 50
- several prompts to access the free, impartial guidance from Pension Wise or to take advice, so consumers can get the help they need, including the recently published 'stronger nudge' rules to implement the requirements of the Financial Guidance and Claims Act 2018
- investment pathways to help non-advised drawdown consumers choose investments that better align with their objectives for retirement when they access their pension and reduce the risk of them 'defaulting' into an inappropriate option
- retirement risk warnings to be given when a consumer has made a decision in principle on how to access their pension savings
- improvements to the Key Features Illustrations (KFIs) which consumers receive when accessing their pension, including a summary of the key information

- cash warnings so that non-advised drawdown consumers invest wholly or predominantly in cash only if they have taken an active decision to do so
- clearer information on costs and charges, in both KFIs and annual information

We agree that many consumers need more support than they currently receive, throughout the consumer journey, in order to make good decisions about their pension. In particular, we agree that more can be done to help ensure that they receive the right guidance and advice at the right time. We are exploring, and aim to validate through evidence and appropriate trials, what can be effective in achieving this as part of the next phase of our work. We will also take account of the need to protect consumers from being exposed to inappropriate advice and guidance.

To identify further potential interventions to support consumers the following are key factors we have in mind:

- Feedback to questions in our Stronger Nudge Consultation Paper (CP21/11) suggested that an earlier nudge towards Pension Wise guidance might prove helpful to consumers.
- There was also some, albeit limited, support for making opt out more difficult for the consumer in this feedback.
- We will also take into account feedback to our Call for Input on the Pensions Consumer Journey, which we published jointly with TPR, and closed in July 2021.
- We will take into account experience from the implementation of our own stronger nudge rules, and similar rules put in place by DWP for trust-based pension schemes, once these come into effect.
- We will not limit our consideration to Pension Wise guidance – the MaPS "MoneyHelper" service offers other pension guidance that may be more relevant at earlier points in the consumer journey.
- Firms' activities will need to be consistent with prospective new requirements under the Consumer Duty, which we are currently finalising.
- If we do make any further regulatory intervention, we will want to be confident that the benefits outweigh the costs that ultimately fall on consumers, and do not put unjustified barriers in the way of consumers' accessing their pension savings when they are needed most. Trials could be used to validate whether that outcome is achieved.

As described further below, we also want to explore with firms options for how they can provide more support for consumers within the current regulatory framework.

We recommend that regulators should carry out a scoping exercise to establish the research and testing which could be undertaken on decoupling the 25% of a pension pot which is tax free from the rest of the pot and present their findings to our Committee.

We recognise the issue raised by the Committee that consumers are not making active decisions about what they do with their remaining pension savings when they take tax free cash. Research and testing would be important in making any final decision to decouple tax free cash from other pensions decisions, and it would also require changes to the tax regime which would be a matter for Government.

Our remit as a regulator is to protect consumers, promote competition in the interests of consumers and to promote market integrity. In the pensions context, we want to ensure that consumers understand the choices they have, and are able to make informed decisions. We introduced investment pathways to help non-advised drawdown consumers make better, more active investment choices about how to invest their remaining pensions savings. Introduced in February 2021, these changes are still relatively new. We will begin reviewing investment pathways later this year.

It is for government to determine whether decoupling tax-free cash would be appropriate – but if the focus is on helping consumers to make informed choices about how and when to use their pension pots, there may be other solutions apart from decoupling tax-free cash and investment pathways. Some of the areas of focus that we are considering are described above in our response to the Committee's first recommendation.

We recommend that the Money and Pensions Service and the Financial Conduct Authority should develop proposals to increase the number of people choosing a mix of retirement products—including cash, drawdown and deferred annuities—to meet their changing needs at different stages of later life.

We are conscious that consumers' needs change through retirement, but the need for a reliable income throughout will remain. As we recognised in our Retirement Outcomes Review, retirement income choices start for many, with a decision to access tax-free cash rather than thinking about their future pension needs. Many may still be working rather than making a retirement decision at this point. This is one reason why it is important that consumers receive guidance or advice before accessing their pension, so that they can give this appropriate consideration at that time, taking account of their individual circumstances. We see our work on increasing the take-up of pensions guidance as an important part of addressing this issue. But as the Committee notes, it may be that many savers would be likely to need paid-for advice to choose a suitable mix of products at this stage, especially as each consumer's circumstances and objectives will be different and subject to change.

It is likely that a choice made when initially accessing a pension pot will need to be revisited at a later date. Our rules require firms to provide information on an annual basis to enable consumers to review any decision they have made. This information prompts consumers that it may be in their best interests to review the decision, or to take advice or guidance, if their circumstances or retirement objectives have changed (COBS 16.6.8R). Where a consumer is invested in a pathway investment, this annual statement must also provide specified information. This includes a reminder about how consumers can select a different pathway option and change their pathway investment, or select a non-pathway investment or different product to access their pension savings (COBS 16.6.8AR). Firms should consider prompting a consumer who has used the same pathway investment for five years (or a multiple of five years) to review their investment decision (COBS 16.6.8BG).

We will keep this issue in mind as we undertake the next phase of our work described above in our response to the Committee's first recommendation, including our work with MaPS.

For CDC schemes to provide a realistic alternative to annuities, people with defined contribution pension pots need the option to be able to transfer to decumulation only CDC schemes. In future these may be available through master-trusts regulated by the Pensions Regulator. We recommend that the Financial Conduct Authority consider whether there is also a case for developing contract-based CDC schemes and publish its findings.

We are supportive of the Government enabling Collective Defined Contribution (CDC) schemes in the UK. Should the government legislate for multi-employer CDC schemes, FCA-regulated firms could in the future operate trust-based CDC schemes, just as some insurers already operate commercial master trusts.

Given this early stage of implementation of CDC schemes in the UK, we are not yet able to determine the prospective level of demand for contract-based CDC schemes regulated by us. This may become clear as the market for these through master trusts develops.

That development may also inform thinking on the details of a regulatory framework for contract-based CDC schemes.

We note that decumulation-only CDC schemes would need to be confident of a future flow of business to get to scale. A more natural progression might be for an established commercial CDC scheme to open its proposition to decumulation only clients.

We recommend that all consultations covering pension regulation should be run jointly by the Pensions Regulator and the Financial Conduct Authority unless there is a clear and published reason for a different approach.

While the statutory remits of the FCA and TPR are different, and recognising that DWP rather than TPR is responsible for making and amending regulations, TPR and the FCA work closely together to address risks and harms in the pensions and retirement income sector – as we noted in our joint letter following our evidence session. We have further strengthened this relationship in recent years as evidenced by our joint strategy, joint work to reduce the risks related to defined benefit transfers, and on climate change and climate related financial disclosures.

Where appropriate, we publish joint papers with TPR, for example our Value for Money discussion paper and the Pensions Consumer Journey Call for Input. As we mention in our joint letter, while we aim to be as consistent as possible, there will always remain the potential for different rules, given the different legal frameworks we operate under. For example, we face specific requirements under S.138l of the Financial Services and Markets Act 2000 to take certain steps such as conducting a cost benefit analysis and providing an explanation of the purpose of the purposed rules. Therefore, while we are very likely to want to reach the same outcome, our legal frameworks can result in the path for achieving that being slightly different.

Furthermore, some changes would require new legislation to achieve alignment, for example the age at which schemes are required to issue wake-up packs to pensions savers. However, we want savers to achieve good outcomes and have substantially the same experience regardless of which system they are saving under. We will continue to work closely with TPR to achieve this, including as we undertake the next phase of our work described above in our response to the Committee's first recommendation.

There is a charge cap for savers who default to a scheme through auto-enrolment. We recommend that there should be a similar charge cap for non-advised savers choosing a decumulation product through investment pathways. The Financial Conduct Authority should report on this as part of its upcoming review on investment pathways.

Charges are in the scope of the post-implementation review of investment pathways that we will start this year. However, after a just a year, there will be limits on what can be meaningfully evaluated as pathway investments are longer term products and as we have previously stated we want stakeholders to take a holistic view of value for money, having regard to other factors than just investment performance and costs.

We recommend that aggregating and individual savers, rather than pots, becomes a key priority for the FCA, the Pensions Regulator and the Department for Work and Pensions. As a matter of urgency, so as not to delay the programme, the Department for Work and Pensions should work with the Pensions Dashboard Programme to establish whether pensions dashboards may be a route for doing this.

The nature of the UK's pension system means pension savers often have multiple pension pots, with different providers and schemes rather than one pension scheme that the consumer contributes to over their lifetime, regardless of their employer.

Recognising that there is ongoing work looking at how data amalgamation could work, any solution in this area will require a combined approach from Government, regulators, and others to overcome the challenges.

We recommend that the Financial Conduct Authority uses the definitions below of enhanced guidance and limited advice:

a) *Enhanced guidance: guidance on the options available which is tailored to an individual dependent on the information they provide, without a recommendation. This is not a regulated activity.*

b) *Limited advice: a recommendation made to an individual based on limited or partial information about them.*

The Financial Conduct Authority should provide examples to the industry to encourage the wider offering of enhanced guidance and limited advice to the fullest extent allowed by the existing law.

Our Evaluation of the impact of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR), published in December 2020, set out that the market would benefit from greater development of two key support services which exist but had not yet developed on a significant scale. These are streamlined advice, and more personalised guidance services, discussed further below. While there are similarities between the way that we described these services (see below) and those envisaged by the definitions of enhanced guidance and limited advice set out in the Committee's recommendation, ultimately the definition of regulated advice is set out in legislation. We can therefore issue guidance on what falls within or outside that definition, but we cannot change it or introduce a new definition.

Streamlined advice

To support firms giving streamlined advice, in September 2017 we published Finalised guidance on streamlined advice. We described streamlined advice as:

'A term used to collectively describe advisory services (such as focused and simplified advice) that provide a personal recommendation that is limited to one or more of a client's specific needs. The service does not involve analysis of the client's circumstances that are not directly relevant to those needs.'

Our guidance applies to both simplified and focused advice. These services are the same in every respect, except with simplified advice the firm sets the boundaries of the service, whereas with focused advice the client stipulates the boundaries. The guidance contains a number of case studies and examples setting out how our rules and guidance apply in different scenarios.

In our *Evaluation of the impact of the RDR and FAMR* we found there has been some innovation in the market, in particular around the development of automated, streamlined advice. While these streamlined services are available and growing, they currently make up only a small proportion of advice services and do not yet provide competitive pressure to more traditional advice services. We found a significant number of firms had considered offering streamlined services but decided that they are not commercially viable for various reasons including the fixed costs per client, the steady supply of affluent customers looking for holistic advice, and low consumer demand.

Personalised guidance

In our *Evaluation of the impact of the RDR and the FAMR*, we described personalised guidance as being:

'Guidance that is more personalised to the specific needs of a customer but which does not amount to regulated financial advice. While at present firms provide generic information covering most aspects of financial planning, it is often the case that customers must find the information for themselves and consider how to apply it to their own circumstances. Providing a clearer steer to customers is likely to help them feel better equipped to make their own decisions (or even to realise that they need an advised service).'

During our evaluation, some firms raised concerns about understanding the point at which more general forms of consumer support become regulated advice, suggesting that this limits their ability to help consumers through innovative guidance offerings. Some firms were reluctant to offer potentially helpful guidance to consumers, notwithstanding it would be substantially lower cost, for fear of straying into the provision of advice.

This issue had also been raised in the original FAMR work launched in August 2015. As a result, HM Treasury amended the definition of regulated advice in the Regulated Activities Order (RAO) with effect from January 2018, distinguishing between regulated advice that is a personal recommendation and regulated non-personalised advice, so that most authorised firms would be exempt from the regulated activity of advising on investments unless the firm is providing a personal recommendation. The FCA has published perimeter guidance (including detailed examples) to help firms understand the boundary between these two forms of advice, and on the advice/guidance boundary more generally. This includes guidance specifically relating to accessing pension savings. We have also published materials to highlight the differences between advice and guidance on investments.

It is clear, however, that some concerns remain and that some firms are still finding it difficult to develop new services to meet the needs of consumers. We intend to work with firms to explore these issues further in the context of consumers accessing their pensions. We want to understand firms' concerns in more detail and discuss options for how they can provide more personalised guidance within the current regulatory framework.

We also provide support through our Advice Unit, which offers regulatory feedback to firms developing automated models to deliver lower cost advice and guidance to consumers. Firms can also test new products and services within a controlled environment as part of our Regulatory Sandbox. These services have been a success in helping a number of new automated advice and guidance models come to market.

We recommend that the Pensions Regulator, Financial Conduct Authority and Money and Pensions Service produce a plan to increase the number of schemes and employers using the tools they provide. As far as is possible they should aim for consistency across trust-based and contract-based pension savings. The plan should stress the importance of scheme members shopping around before deciding to buy a new product from their incumbent provider.

We agree that employers, pension schemes and pension providers all have an important role to play in encouraging consumers to access information and seek the right guidance and advice at the right time. As noted in the Committee's report, we have previously published a guide for employers and trustees on providing support with financial matters jointly with TPR.

We will continue to work with TPR and MaPS to help schemes and employers offer support to consumers, including as we undertake the next phase of our work described above in our response to the Committee's first recommendation. We recognise the importance of encouraging consumers to shop around, for example we expect firms to highlight the option of doing this to consumers (COBS 19.4.15G) as well as to provide pension annuity comparison information to assist consumers to do so in that context (COBS 19.9).

Most guidance is currently delivered by individuals, which is costly, or through written communication, which is unengaging. In future we envisage a significant proportion of guidance or triage services will be delivered through digital tools. This should be a key consideration in the implementation of the recommendations we have made to regulators and the Money and Pensions Service.

Our rules and guidance are now always produced with digital channels in mind, see for example our guidance in chapter 8 of the Perimeter Guidance Manual, which includes examples to help firms assess whether online interactions are regulated advice or not. As noted above, our Advice Unit offers regulatory feedback to firms developing automated models.

We will keep this recommendation in mind as we undertake the next phase of our work described above in our response to the Committee's first recommendation.

I hope that you find this response helpful. If you need anything further on any of the points covered, please do let me know.

Sarah Pritchard

Executive Director of Markets