

Rt Hon. Mel Stride MP
Chair of the Treasury Committee
House of Commons
Committee Office
London
SW1A 0AA

6 May 2021

Our Ref: 210421B

Dear Mel,

RE: the work of the FCA - pensions guidance

Following the Committee hearing on 4 November 2020 and my follow-up [letter](#) to you of 26 November 2020, I am writing about our progress on implementing the pensions guidance requirements, set out in the Financial Guidance and Claims Act 2018 (the Act). Julie Marson in particular asked me about this issue and I committed to keep the Committee updated. We published our [proposals](#) to implement the Act requirements on 4 May. We refer to these requirements as the 'stronger nudge'. This intervention seeks to encourage consumers to change their behaviour by reinforcing the benefits of receiving pensions guidance and making it as easy as possible for the consumer to take this guidance. Below I set out more detail about how we intend to address, through our consultation, some of the concerns raised by the Committee.

Addressing low take-up of pension guidance

Free and impartial pension guidance delivered through Pension Wise (part of the Money and Pensions Service, MaPS) helps consumers make better informed decisions about options for accessing their pension savings. Under our existing rules, pension providers are already required to signpost consumers to Pension Wise guidance, at various stages of the consumer journey (including through 'wake-up' packs starting at age 50, and every 5 years thereafter until the consumer's pot is fully crystallised), and to encourage consumers to seek appropriate pensions guidance (from Pension Wise) or regulated advice to help them understand their options for accessing their pension savings.

We recognise that take up of this guidance service has so far been low, with only a small proportion of those accessing a Defined contribution (DC) pension pot for the first time having used Pension Wise. We support the government's goal of Pension Wise take-up becoming the norm when a consumer wishes to access their pension. Several initiatives have been designed to increase take-up, including the provisions set out in the Act.

Ultimately, we want to create an environment where consumers are encouraged in an effective way to take Pension Wise guidance, make an active choice to do so and genuinely engage with the guidance.

Implementing the Act

Our proposed rules implementing the Act require pension providers to 'nudge' consumers to Pension Wise guidance before they access or transfer their pension savings for purposes of accessing their pension savings. In particular, they require pension providers to:

- refer the consumer to Pension Wise guidance;
- explain the nature and purpose of Pension Wise guidance and encourage the consumer to take the guidance;
- offer to book a guidance appointment and where the consumer accepts that offer, take reasonable steps to book the guidance appointment at a suitable time for the consumer or provide the consumer with information to book their own appointment;
- explain that the consumer has the option of taking regulated financial advice at their own cost; and
- confirm and record:
 - an opt-out if the customer declines the offer to receive the Pension Wise guidance and confirms they do not want to take regulated advice;
 - whether the consumer subsequently attended the appointment and received the guidance, where they accept the guidance offer;
 - whether the consumer received regulated advice.

These proposals mean all consumers seeking to access their DC pension will be informed about the Pension Wise service, and encouraged to use it. To make it easier for consumers, the provider will offer to book an appointment for them.

Our proposals were informed by findings from behavioural trials conducted by MaPS, which were [published](#) in July 2020. These show that further interventions could significantly increase take-up from 3% to 11% of consumers in the trials. That proportion remains small enough to suggest that this intervention alone is not enough to make accessing Pension Wise guidance the norm – notwithstanding that some consumers have multiple pension pots, and guidance may be less beneficial for those accessing relatively small pots. Findings from the Ignition House consumer research [report](#), commissioned as part of our Retail Distribution Review and Financial Advice Market Review, also showed that most respondents (aged over 50) had a limited understanding of what Pension Wise does and how it can help. Once they heard more, many said they would be inclined to use the service.

Further measures to increase the take-up of guidance:

While the above proposals implement the requirements set out in the Act, we think there is merit in exploring further options for encouraging take-up of Pension Wise guidance. In our publication, we are seeking views from stakeholders, about what more can be done to increase take-up, beyond strict implementation of the Act.

For example, the Act requires the nudge to guidance to be delivered as part of the application to access one's pension, rather than earlier in the pension savings journey. Guidance at this relatively late point in the pension journey may have limited impact if a consumer has already decided how they wish to proceed.

So, we are asking whether a nudge to Pension Wise guidance, at an earlier point in the consumer journey, might be more effective at increasing take up, and how that might work in practice. Pension providers and other regulated firms can already do this, but we want to understand whether a regulatory impetus is required to make sure pension providers direct their consumers to pensions guidance. Building on our existing work, we also invite discussion on whether there are other regulatory interventions we can use to support pension savers more widely, to ensure they can access the right guidance at the right time.

We also ask how the stronger nudge could be made more meaningful, including whether a decision to opt out of guidance should include a cooling off period before a consumer can access their pension; so that declining the offer of a Pension Wise appointment is not the quickest way to access pension savings. If we decide to progress any such additional measures, we will consult on detailed proposals at a later stage.

We are working with the Department for work and Pension to explore these wider options, and where relevant, will share the findings from the responses to our discussion questions with them.

Automatic opt-in vs nudge approach:

During the hearing, Committee members suggested that a more effective approach to increase take-up of guidance would be to make taking guidance a default, so that everyone is automatically booked an appointment, with the option to cancel if they so choose. The proposals in our consultation are designed to nudge consumers to guidance by explaining to them the benefits of guidance and by making the booking of a guidance appointment seems like a normal part of the consumer journey. We think that consumers who have chosen to take the guidance, are more likely to engage with it than those who are made to take it. As I indicated during the hearing, a mandated approach may lead to a higher rate of cancellations, which would be detrimental to the efficiency of the service. Further, the behavioural trials showed that a nudge which presents the benefits of guidance and removes barriers to taking that guidance can be effective.

During the passage of the Act in 2018, Parliament also debated mandatory (or default) guidance, but decided not to take this forward, having heard arguments that a compulsory appointment could be perceived by consumers as a barrier to accessing pensions or a tick box exercise, rather than a natural and beneficial part of the process of accessing pension savings. More recently, Parliament voted against an amendment to the Pension Schemes Bill, now the Pension Schemes Act 2021, which would have required pension scheme members to be offered a pre-booked Pension Wise appointment, 5 years before they are eligible to access their pension savings. In light of Parliament's and the government's decisions, it would not be appropriate for the FCA to take these forward.

Target take-up rate:

The Committee also asked whether we had a target for the take-up of Pension Wise guidance. The government has indicated in answer to a previous [Parliamentary Question](#) that it does not intend to bring forward a specific target for take up of Pension Wise guidance. Again, in light of Parliament's and the government's decisions, we do not think it would be appropriate for the FCA to set such a target, though we strongly support the objective of greater take-up of Pension Wise guidance and our proposals will help achieve this.

I trust the information provided in this letter is helpful to the Committee. I would be happy to address any further questions on this at the hearing on 12 May.

Yours sincerely,



Nikhil Rathi
Chief Executive