The Pensions Regulator
Making workplace pensions work

Napier House
Trafalgar Place
Brighton
BN1 4DW

0345 600 0707

www.tpr.gov.uk
www.trusteetoolkit.com

mpcorrespondence@tpr.gov.uk

FCA FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

Rt Hon Stephen Timms MP
Chair
Work and Pensions Committee
House of Commons
SW1A 0AA

12 November 2021

Our ref: 211012D

Dear Mr Timms,

Work and Pension Committee Inquiry on Pensions Freedoms: Accessing pension savings

Thank you for your letter following our joint evidence session with the Committee on 22 September on accessing pension savings.

TPR and the FCA continue to work closely on a number of pensions related issues and I hope you find our joint responses to your questions helpful.

1. How will information on the stronger nudge be shared between the Pensions Regulator and Financial Conduct Authority?

TPR and the FCA have worked closely with DWP on the stronger nudge policy proposals as they have been developed and we plan to continue that close co-operation. It remains important to both organisations that we strive to deliver the same or similar outcomes for savers while recognising that we are subject to different regulatory frameworks.

Establishing the effectiveness of the policy will primarily fall to the FCA and DWP, and MaPS will also play an important role in monitoring take up. That is why, going forward, it is important for all four organisations to share information and findings about the progress of the stronger nudge policy. We have regular dialogue at different levels within the organisations, and we are confident that the right information will be shared at those meetings. This information sharing will build on joint work that we already undertake.

We know that access to advice and guidance is important to help savers with decisions that will impact their retirement. However, this should not just be at the point of access. Savers would benefit from guidance about their savings earlier on while they are still building their pot. This is why TPR and FCA launched a joint call for input earlier this year on the pension consumer journey. We invited stakeholders to share views on what more we can do to help engage consumers so that they can make informed decisions that lead to better pension saving outcomes.

2. The Money and Pensions Service told us that for an automated Pension Wise appointment trial to take place DWP and the FCA will need to consider how to target individuals rather than the holders of pension pots, as one person may have many pots but will not need many appointments. What joint work is taking place to identify individuals rather than pension pots?

The nature of the UK's pension system means that individual consumers 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). Consequently, an individual firm or trust-based pension scheme is not in a position to take a holistic view of an individual consumer's pension savings.

In the short term, and specifically for the purposes of designing trials, it is reasonable to assume that a consumer is an active member in only one pension (especially in a workplace context). Focusing on active members may therefore mitigate the risk that consumers are invited to multiple appointments and is a reasonable basis for designing trials on how to increase take up of MoneyHelper guidance. There may be other possible future options. For example, over time, the pensions dashboards will help consumers have a better understanding of the range of pensions they have. We will keep under review how it may be possible to leverage this understanding of the consumer's pension savings to support their guidance needs.

Finally, as we said during the recent evidence session, we believe there is a need to look more holistically at supporting consumers at all the various different stages of their pensions lifecycle so that they receive the right guidance at the right time – which may well be broader than offering Pension Wise appointments at aged 50+. The MaPS pension guidance transformation programme is looking more broadly at the pensions journey – we will remain engaged with them and DWP as their programme develops to identify whether there are other policy solutions that can support people throughout their pensions journey.

3. How will the lessons from the FCA's introduction of investment pathways be shared with the Pensions Regulator?

Investment pathways are a new addition to the pensions landscape, having been introduced in February this year[1]. The pathways aim to support consumers making investment decisions when they enter a drawdown product without taking advice.

During the Retirement Outcomes Review and remedy development, the FCA shared findings and thinking with DWP and TPR. This included the market study findings that informed why and how the FCA developed investment pathways, as well as the consumer research and testing conducted by the FCA to inform the shape and nature of the choice architecture offered to consumers in the pathways.

In PS19/21, the FCA committed to review investment pathways one year after implementation. This review is expected to begin in spring 2022. The FCA is in the process of scoping that review but recognises that after just one year in force, there will be limits on what can be meaningfully evaluated. The FCA intends to share its learnings with TPR and DWP throughout the review. TPR welcomes the sharing of lessons from the introduction of investment pathways.

[1] The introduction of pathways followed the publication of final rules in the FCA's Policy Statement (PS19/21) in July 2019. The pathways were originally due to by implemented by August 2020, however the FCA Board deferred implementation by six months to support firms in prioritising their critical functions to prevent and mitigate consumer harm during the pandemic.

4. We were told that it would be a poor outcome if there are different rules in one environment compared with the next. How do TPR and the FCA assess how different interventions will interact, particularly where a person has pension pots under both regulators?

While our statutory remits are different, TPR and the FCA work closely together to address risks and harms in the pensions and retirement income sector. There have been significant strides in this relationship in the past few years as evidenced by our joint strategy, joined-up work to reduce the risks to member outcomes around defined benefit transfers and our work together on climate change and climate related financial disclosures.

We want savers to achieve good outcomes and have substantially the same experience regardless of which system they are saving under. However, 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. As you are aware, the FCA sets rules for firms providing personal and stakeholder pensions, whereas DWP sets the rules in TPR's area of operation, which is supplemented by TPR with codes of practice and guidance. Furthermore, some changes require new legislation to achieve alignment. One example of this is the age at which schemes are required to issue wake-up packs to pensions savers. The FCA amended its rules so that wake-up packs would be sent from age 50. For trustees to take a consistent approach, this would require legislative change.

A good example of an initiative where FCA, TPR and DWP work closely together is our work on value for money (VfM). TPR and FCA published a joint discussion paper to work towards common metrics, in a bid to drive long-term focus on VfM across the pensions sector. We are also coordinating closely with DWP and other agencies to ensure that the work complements DWP's own work on VfM and broader initiatives that are intended to focus industry's attention on long-term value for members.

We hope this letter is helpful in providing additional information to the committee, and we would be happy to provide further detail if necessary.

Yours sincerely,

David Fairs
Executive Director,
Regulatory Policy, Analysis and Advice
The Pensions Regulator (TPR)

Sarah Pritchard
Executive Director, Markets
Financial Conduct Authority (FCA)

Work and Pensions Committee

House of Commons, London SW1A 0AA
Tel 020 7219 8976 Email workpencom@parliament.uk Website www.parliament.uk/workpencom

David Fairs
Executive Director
The Pensions Regulator

Sarah Pritchard
Executive Director – Markets
Financial Conduct Authority

7 October 2021

Dear Mr Fairs and Ms Pritchard,

Thank you for giving evidence to the Work and Pensions Committee session on Protecting pension savers: Accessing pension savings.

During evidence we heard about how the Pensions Regulator and Financial Conduct Authority are co-ordinating their work. I would be grateful if you could answer the questions below:

1. How will information on the stronger nudge be shared between the Pensions Regulator and Financial Conduct Authority?

2. The Money and Pensions Service told us that for an automated Pension Wise appointment trial to take place DWP and the FCA will need to consider how to target individuals rather than the holders of pension pots, as one person may have many pots but will not need many appointments. What joint work is taking place to identify individuals rather than pension pots?

3. How will the lessons from the FCA's introduction of investment pathways be shared with the Pensions Regulator?

4. We were told that it would be a poor outcome if there are different rules in one environment compared with the next. How do TPR and the FCA assess how different interventions will interact, particularly where a person has pension pots under both regulators?

Yours sincerely,

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