Written evidence from the Investing and Saving Alliance (APS0011)

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services. Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

1. **Do people have access to a range of pension options to meet their needs for later life and how might these needs change in future?**

   We should first consider this from an outcomes perspective, and then review the market to check that products are widely available and accessible for everyone to achieve those outcomes. We believe the range of options which exist including pension decumulation products and other retirement products, such as later life lending, together with other savings schemes such as ISAs, can generally provide good outcomes for most consumers, when tailored to individual needs. It is worth highlighting the challenge of funding social care in later life. Costs will vary significantly from person to person and there is a deficiency of advice options in this area. This is a policy area which has yet to be fully addressed by government and is a strategic area that TISA will be focusing on in the coming months.

   It is unlikely that a single product will be appropriate for an entire retirement, and a combination will be required typically encompassing blended Drawdown and Annuity solutions. However, a consumer will not generally possess the knowledge or awareness to understand the range available to them, the inherent risks associated, and which product(s) are most appropriate for them at what time. Access, to an extent, becomes significantly compromised through disengagement and binary decisions often result in the use of a single product. This is a key overarching theme that runs throughout our response.

   Another linked consideration is the range of appropriate options available, which will be determined to a degree by the size of accumulated pension wealth. Whilst Automatic Enrolment has been a great success to date, it is generally recognised that minimum contribution levels are not sufficient to achieve sustainable retirement outcomes in isolation. Lifetime and annual allowances do restrict contributions and investment growth. In particular, we would draw your attention to the Money Purchase Annual Allowance (MPAA), which restricts contributions to £4,000 p.a. once a pension has been flexibly accessed. Working patterns mean that many will flexibly access their pensions and drawdown an income to supplement reduced earnings as part of a phased retirement approach, particularly until the State Pension age is reached. The impact of Covid-19 on household finances has also resulted in many needing to rely on their pensions to cover temporarily or permanently lost or reduced incomes. Whilst the triggering of the MPAA may not appear to be restrictive for the masses, it is increasingly impacting on this group and could potentially affect retirement decisions and/or retirement outcomes. If we consider an employee in a pension scheme which has a generous employer pension contribution, then a total contribution level of just over 13% would result in a breach of the MPAA for an individual earning a median income of £30,000. Schemes which qualify for the PQM+ accreditation have total minimum contributions of at least 15%. Either the level of the MPAA needs to be reviewed and increased, or tax free cash recycling rules reviewed to ensure that individuals who do access their pensions, have the opportunity to benefit in full from their employers' AE schemes without incurring tax penalties which were only intended for higher earners.

   There are a group of individuals who hold scheme specific protections linked to tax free cash and/or retirement age. Currently, the block transfer rules will restrict many from transferring to more appropriate and modern schemes to access pension options.

Furthermore, even if they can meet the block transfer requirements, they remain restricted with their pension options as all benefits must be taken at once if the protection is to remain in place, therefore retirement strategies incorporating drip-feed Drawdown cannot be used. This goes against the spirit of pension freedoms and the government ambition of encouraging people to work for longer and phase in their retirements over potentially several years. Moving the normal minimum pension age back to 57 in 2028 also supports the general thrust of encouraging people to work for longer.

2. Are there other pension options, not currently available in the UK, which would better meet people's needs in later life?

Retirement is often 'a game of two halves', with early retirement being a relatively active period often requiring an element of income flexibility, with priorities shifting in later retirement to needing a guaranteed income to meet additional costs such as long-term care. Without the benefit of ongoing regulated advice or personalised guidance, it is difficult for an individual to determine when this transition starts to occur. Indeed, as the likelihood of cognitive decline increases with age, this perhaps becomes even more difficult to identify, and people will continue on through retirement with inappropriate products that do not meet their necessary outcomes. Whilst ideally everyone would benefit from ongoing support, we recognise this is not realistic and we would encourage more exploration in this area to understand how these challenges can be mitigated.

One potential option is to develop individual deferred guaranteed income products, which are currently only available to institutional investors. It would be difficult to create a successful market as this is an upfront investment to secure future income needs without any immediate gratification. However, as 'Generation DC' mature and move into retirement with less wealth than their parents and with increased risks, it is likely we will see some individuals and households extinguishing their pension wealth too early and experiencing poor outcomes for the remainder of their lives. This may serve as an incentive to younger generations to avoid this outcome and secure their later life income with a deferred guaranteed income product. Consumer education would also be required, as people typically underestimate their life expectancy and therefore do not consider the need for retirement income during what is likely to be their final years.

The framework for Collective Defined Contribution has now been set out in the Pension Schemes Act 2021, and we wait with interest to see how this progresses over time, and whether some of the issues which have emerged in European jurisdictions over recent years can be avoided.

3. Are there barriers to providing other pension options which meet a need and are not currently available in the UK?

N/A

4. Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?

Most individuals are not receiving the appropriate guidance or regulated advice they need to be able to plan effectively for their retirements – either through the accumulation phase, just prior to retirement or through retirement. This is the biggest single issue that needs to be resolved.

According to FCA, only 8% of UK adults receive financial advice, with it being perceived as complex and expensive. This leaves (according to ONS population overview January 2021) over 50 million adults reliant on guidance.

FCA retirement income data for 2019/20 shows that out of the 674,000 individuals accessing their pension for the first time, over 50% did so without first receiving either regulated advice or MaPS guidance.

The same data set shows that for regular flexible withdrawals, a level of 8% or more is the most common across all age groups and across almost all pot sizes. For some, this rate may be appropriate, and they have other wealth to rely on in addition. However, for many others this will be their only private retirement fund, and we will see this group experience poor retirement living standards caused by early fund erosion. As 'Generation DC' matures and starts to move into retirement with no DB to rely on, we are likely to see this group increase in number.

Pension providers are required to signpost their members to MaPS but clearly from the statistics, this only has a limited impact. And if that 50 million not receiving regulated advice did seek MaPS guidance sessions, there would not be resource to meet this demand.

Given the shortage of financial advisers in the country, product providers have the biggest role to play in providing guidance to consumers, but a degree of personalisation is required to secure engagement. At the moment, the FCA's Advice regulations act as a deterrent to firms offering personalised guidance services to consumers. We are liaising with our members and FCA to review the boundaries that exist between guidance and advice, with an objective of creating a regulatory framework which enables providers and advisers to develop streamlined/simplified advice propositions.

Terminology and jargon can play a large part in encouraging engagement, with terms often confusing and illogical, creating false perceptions e.g. Tax Free Cash is a term often used to promote TV competitions and creates the perception that it is some sort of windfall or bonus, and can be used as such.

As outlined in our response to Q2, access to appropriate support is required not only prior to first access, but throughout the retirement journey as priorities and requirements change. Additionally, support should be provided throughout the accumulation journey, particularly when certain life events occur such as getting married or having children, as support from age 50 is often too late for unengaged individuals to be able to fund significant shortfalls.

TISA has developed proposals which have been shared with FCA, designed to protect consumers from 'bad players' in a growing digital marketplace, which extends out to the use of search engines which are used to locate advice and guidance services. A summary is below:

- Currently the FCA list of firms, containing their regulatory status and permissions, is held in a non-digital format. This data is used by providers of digital services, data providers, digital platforms etc to check that the firms have the necessary regulatory approvals / permissions to gain access to their services – these checks are currently performed manually (sometimes on a daily basis).

- A good example is the TISA eXchange (TeX) which was set up by TISA, following strong encouragement by the FCA, to put in place the standards, SLAs, the consumer consent model, consumer liability protection etc for all ISA, GIA and Investment transfers in the UK. TeX is now used by the majority of financial service providers who operate investment services. Everyday TeX checks that the firms, using the services, have the correct regulatory permissions. This check is undertaken manually, due to the FCA data not being in a machine readable format. Many other firms also need to undertake such manual checks (for example those firms providing key consumer financial data to support credit checks etc).

- If the FCA were to convert the data on firms into a machine readable format, the industry could create an industry standard API to access and check the status of a firm. This will reduce risks in checks not being currently made and thereby further protect consumers while reducing industry operational costs.

- Once in place, there are a range of potential opportunities for the FCA to further protect consumers from bad players. For example, the FCA could mandate that all digital players such as search engines who host financial advertisements and associated content use the API to check the company placing the advert has the necessary permissions to undertake the advertisement and place the content. This would be a low cost measure for digital players to protect consumers from bad players.

- Similarly, the API could be used to support consumers (through MaPs and other consumer centric online services) to check if the companies they are dealing with, are who they say they are and have the right level of permissions.

- Further, the proposed API will provide the necessary protection to consumers as Open Finance becomes a reality.

5. What role should the Money and Pensions Service have in supporting people accessing their pensions for the first time, including through pension dashboards?

The wording of the question infers that the intention is for Pensions Dashboards to facilitate pension access. For clarity, we would confirm that whilst Pension Dashboards will hopefully boost engagement and be a trigger to consider pension options and retirement when appropriate, actual access will not be facilitated through Dashboards themselves.

There are four other relevant points:

1. MaPS provides a valuable impartial and free service for supporting people to access their pensions
2. Consumers should continue being signposted to them
3. If MaPS has access to pensions dashboard data (when supporting a consumer), that will be even more valuable to consumers
4. A mechanism should be put in place to track consumers' actions after accessing MaPS, so that the effectiveness of the guidance can be measured

6. Should the Money and Pensions Service offer enhanced guidance or limited advice for people making decisions about their pensions?

No, we do not believe MaPS should offer a guidance proposition beyond what is currently provided. Our response to Q4 provides further detail on how we believe the guidance and advice framework can be enhanced, and the work we are undertaking with our members and FCA to achieve this.

We do need to find an effective way to increase consumer awareness of MaPS and the number of individuals who undertake a guidance session. This is an important step in building a Retirement plan. For some, general information will be sufficient, whilst for others more personalised guidance or regulated advice will be required. It is important in that first step to establish which option is most appropriate for an individual.

7. Can the success of auto-enrolment in helping people save into pensions be replicated for people in retirement through investment pathways?

We need to be aware that Accumulation and Decumulation are very different in nature, and it is not possible to draw comparisons between the two. For Accumulation an inertia approach is successful as there is simply one beneficial outcome i.e. contributing to a pension and benefitting from an additional employer contribution is almost always a better outcome than not.

The diverse nature of Decumulation means there can never be a ‘one size fits all’ approach and it has to be determined on an individual basis. We agree with the principle of Investment Pathways and these will help a particular group of people to an extent. However, they are designed to provide an element of protection against investment risk. Sustainable income levels and mortality risk are still important elements which need to be continually reviewed.

The one fundamental and beneficial outcome for Decumulation is to have a Retirement plan.

8. Including costs, what information do consumers need about different retirement products to make an informed choice?

Whilst costs are an important factor, they should not be considered in isolation. It is the components which make up Value for Money (VfM) which need to be assessed. This can comprise several elements and be determined by what an individual considers VfM for their own circumstance. Once a Retirement plan has been created with the appropriate support, the market should then be reviewed to select products which meet the desired outcomes.

9. Are pension schemes communicating options effectively to members and are there material differences between trust-based and contract-based pension schemes?

We are not aware of any material differences, however it is important that we achieve consistency in consumer outcomes to members of both trust based and contract based schemes. Communications need to be in plain English and meaningful to the consumer, representative of the client base and scheme type - what works for an AE master trust won't necessarily work for an engaged non-workplace personal pension member. The simpler annual statement goes some way to breaking down barriers and we should be considering whether other communications such as illustrations improve the consumer journey.

10. Can the issues around small pension pots be solved through behavioural changes by savers?

Theoretically then yes. The ideal scenario would be for engagement to be high amongst scheme members, which would create higher levels of consolidation than we see today. However, we do not see this as being a realistic outcome currently. Recent research contained within the DWP Small Pot Working Group report December 2020 concluded that an automated solution (i.e. not requiring member engagement) would be the most effective approach to resolving this issue, which aligns to the AE principle of inertia. This would serve as an appropriate backup approach to help those who do not engage. The project is progressing further, and we would suggest it prudent to review the effectiveness of the outputs from this piece of joint industry and government work.

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