

Written evidence from the Royal London APS0016

Royal London is supportive of the work of the Committee and pleased to input to this inquiry.

Responses to the Questions

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?

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

The current range of pension options can meet most people's later life needs, however individuals may benefit from a combination of products, such as an annuity and drawdown pension. This would give them the ability to underpin a certain level of income alongside some flexibility of access to funds when needed.

The issue is not the availability of the products, but the provision of advice and guidance for people to navigate the market.

Later life needs will likely change in the future to include funding for social care. There may also be increased demand for guaranteed income to cover an individual's regular expenses as DB pensions start to fall away. Perhaps we will see a return in demand for annuities, but with greater flexibility in how they are structured.

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

Finance laws restrict what is allowed as an authorised payment from a pension. This limits innovation based around annuities and drawdown.

The MPAA at £4,000 causes significant issues for individuals accessing their pension savings early through unfortunate circumstances like unemployment and COVID. They can't easily replenish their pension savings later on when their circumstances improve because of the low level of the MPAA. The MPAA should be reviewed to ensure it is effective in targeting the problem it seeks to solve – primarily, recycling – and that it isn't creating disproportionate problems elsewhere.

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

People who have never engaged with their pension are unlikely to engage with organisations like MaPS or Pension Wise, even when stronger nudges are introduced. They

are currently not receiving enough guidance and they are either unable/unwilling to pay for advice, not served by existing advisers (they don't have enough assets) or both.

As their pension provider, we can engage with them at the point that they contact us in order to make a decision about taking money out of their pension. Some form of personalised guidance or low cost focussed advice is needed to help them make informed decisions on both how to access their pension and on an ongoing basis.

Some people are unable to obtain the advice they are required to take to give up safeguarded benefits, thereby restricting how they can access their pension. This is particularly the case for overseas customers and individuals looking for greater flexibility than their DB pension offers.

While the work to protect people from poor advice on DB transfers is commendable, it seems anomalous that those with DC pensions can make a multitude of decisions involving large sums and large tax liabilities without any mandatory guidance or advice.

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

MaPS role should be focussed on helping people to understand their pension, the options available for accessing their pension and the considerations around the different options. This is a big enough task on its own as many people are not engaged with their pensions and don't understand them. The pension dashboard can be used by to assist in the process.

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

It's not clear what is meant by enhanced guidance or limited advice. They are not defined terms and mean different things to different people. Their scope needs to be clearly defined.

MaPS should continue with its current role of helping people to understand their options. This avoids the risk of MaPS leading an individual down a certain route or straying into advice, both of which come with additional cost, risk, loss of impartiality and potential liability. Advice should be left to advisers to offer while taking on this risk and liability.

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

The diversity of people's spending patterns in retirement compared to savings patterns in work creates difficulties for default type arrangements in retirement. We support investment pathways as a step forward, but they need to be supplemented with advice, guidance and regular reviews as people's circumstances change.

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

Consumers need information on:

- What the different products are, their pros and cons, and their potential uses
- The different costs they could incur on the product
- The ability to change income levels or take an ad hoc withdrawal from the product, including any minimums or maximums that apply
- Any guarantees on the product
- Any financial benefits that apply (e.g. profit share for mutuals)
- The tax treatment of payments
- The investment options available on the product
- The death benefit options available under the product
- The financial security of the product
- Real life examples/case studies to bring it all to life (e.g. people like you do ...).

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

Not all pension schemes are communicating effectively. There are examples of both good and bad communications. Some retirement packs are lengthy, unengaging, filled with jargon and difficult to understand for customers. Other retirement packs have been carefully designed in providing customers with the desired information in a simple, easy to read and digestible format.

We are not aware of material differences between the retirement packs of trust and contract based schemes, rather reflecting when the scheme started or the product was launched.

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

The pension dashboard has the potential to change behaviours. It will allow savers to see all their pension plans through one log in and in one place. This may make it easier for them to be nudged into consolidating pension plans, but the ease of transferring plans will be key to this happening. It should be noted consolidating may not be the best option for all individuals.

About the Royal London Group

Royal London is the largest mutual life, pensions and investment company in the UK with Group funds under management of £148 billion. Group businesses serve around 8.8 million policies and employ over 4,000 people (figures quoted are as at 31 December 2020).

The Royal London Group's specialist businesses provide pensions, protection and investment products. These products are predominantly sold through intermediaries, however we also provide a direct to customer proposition.

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