

## Written evidence from the Department for Work and Pensions (APS0035)

### Introduction

A number of parties have key roles and responsibilities to support savers regarding decumulation – including government (DWP, HMT), regulators (FCA, TPR), MaPS, pension schemes and providers, and the wider pensions and advice industry. We work closely together to ensure the system works.

- HM Treasury are responsible for the Pension Freedoms policy, including through the tax regime that now enables a wider choice of decumulation options – and also for Financial Services Policy including financial advice and guidance and those areas of the pension market regulated by the Financial Conduct Authority (FCA)
- DWP regulates the occupational pensions market, and is also responsible for Automatic Enrolment policy, and stewardship of pensions arm's length bodies including the Pensions Regulator, and also the Money and Pensions Service (MaPS).

Pension schemes and providers, and the wider pensions and advice industry also have a key role in the products and services they provide to savers.

### **The answers to the W&PSC questions in this document focus on DWP areas of responsibility**

#### *General Overview*

The Pensions Flexibilities brought ground-breaking freedom and choice to the way people were permitted to access their DC retirement savings. Individuals can now choose to access their pension savings as a single lump sum, an adjustable or regular fixed income, ad hoc withdrawals, or a combination of these.

HMRC data<sup>1</sup> shows that as of March 2021, 12.8 million flexible payments have been made from Defined Contribution (DC) pensions by 1.7 million individuals since the introduction of Pension Freedoms. The total amount withdrawn through flexible payments has now exceeded £45 billion.

The Government introduced a number of measures to help members understand the new options, to support people in their decision-making and to enable a range of decumulation products to be developed and delivered by industry.

In addition, Government and Regulators have been monitoring the landscape following the implementation of the flexibilities, reviewing and assessing evidence of any risks arising from what's happening in practice. This has enabled and informed a number of targeted and proportionate responses to particular risks. For example - DWP plans to introduce Stronger Nudge, and to consult on changes to single page summaries and generic risk warnings to be issued by schemes from age 50.

Automatic enrolment (AE) transformed workplace saving. Over 10 million employees have been automatically enrolled into a workplace pension, and over 1.8 million employers had met their duties by the end of February 2021<sup>2</sup>.

As AE matures, and as patterns of saving continue to shift from DB to DC, we should expect further developments in the pensions landscape.

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<sup>1</sup> HMRC Flexible Payments from Pensions, April 2021 [Link](#)

<sup>2</sup> *The Pensions Regulator, Automatic enrolment declaration of compliance report* [Link](#)

Government and the regulator continues to take an active role in monitoring and engaging appropriately to understand how savers are accessing their savings – and to use and empower the expertise and accountabilities in the system, including trustees, schemes and providers, in order to serve a diverse population and needs.

## **Decumulation Options**

**Q1 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?**

**Q2 Are there other pension options, not currently available in the UK, which would better meet people's needs in later life?**

**Q3 Are there barriers to providing other pension options which meet a need and are not currently available in the UK?**

Yes, people do have access to a range of options that address various needs – such as income and lump sum cash amounts.

HM Treasury are responsible for the policy and legislation regarding decumulation options allowable in the UK.

The framework is part of the tax regime. It allows for a range of products to be developed by pension schemes and providers to serve a variety of savers' needs.

The range includes, in addition to the tax free lump sum: leaving the pension pot untouched; purchasing an annuity (a guaranteed income stream); getting an adjustable income (Flexi Access Drawdown); taking cash in chunks (Uncrystallised Funds Pension Lump Sum); cashing in the whole pot in one go; and mixing any of the options.

Government and regulators work to identify risks and opportunities to ensure the system works.

## **Advice and guidance**

**Q4 Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?**

Yes, but we think there are further improvements that can be made. The Government has ensured free guidance is available to all. We are also driving forward a number of initiatives to increase availability and clarity of scheme communications, as well as awareness and take up of guidance.

The Government ensures that all savers have access to free impartial guidance as they approach retirement age – through Pension Wise, part of the Money and Pension Service. Pension Wise successfully supports people to make decisions, with nine in ten appointment customers (91%) agreeing that Pension Wise helped them to consider their pension access options more thoroughly<sup>3</sup>.

People also receive information and guidance from schemes and pension providers.

In addition, the advice and guidance market is available for savers to use, and Pension Wise sign post to these services. 50% of defined contribution pots accessed in 2019/20 were accessed by people who received either Pension Wise guidance or advice.<sup>2</sup>

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<sup>3</sup> MaPS Pension Wise Service Evaluation 2019/20 [Link](#)

Individuals' advice and guidance needs, and their decisions to utilise these services, will differ depending on their particular situation.

The Government is actively working to increase awareness of pension guidance services to increase their use by those who require them. Receiving guidance, advice and other communications before approaching retirement can help people familiarise themselves with pensions, and prepare for decisions about how to access their pensions. DWP plans to implement a number of new measures to encourage early engagement with decumulation decisions:

- Requiring schemes to deliver the Simpler Annual Benefit Statement and developing an approach to implementing a statement season – to improve clarity and consistency in communications from schemes and providers to savers.
- The Pensions Dashboard will provide access 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 also intends to introduce information and communications from age 50 (single page summaries and further generic risk warnings), which will include sign posting to Pension Wise as well.
- DWP's Stronger Nudge policy is designed to further increase take up of guidance – by presenting receiving Pension Wise guidance as a normal part of the process of accessing pension savings using pension freedoms, and the provider offering to book an appointment for the saver.

DWP is committed to ensuring the provision of guidance for all savers.

The advice market is a matter for HMT policy.

#### **Q5 What role should the Money and Pensions Service have in supporting people accessing their pensions for the first time, including through pension dashboards?**

MaPS has a broad role to deliver financial capability, debt advice and pension guidance. MaPS' UK-wide strategy seeks to transform the country's financial wellbeing in a decade. One of the goals of this strategy, to be delivered by working with others, is for 5 million more people to understand enough to plan for and in later life.

In relation to decumulation in particular, the Government launched Pension Wise (part of MaPS) at the time of the Pensions Freedoms to help consumers understand their options and make informed decisions when accessing their pension savings. It is available to all pension savers from age 50. MaPS also runs advertising campaigns to encourage use of Pension Wise.

In addition, The Pension Advisory Service, also part of MaPS, provides guidance on all areas of UK pensions to the public regardless of age.

MaPS also delivers bespoke guidance and support to potential victims of scams.

MaPS has also developed a drawdown comparison tool which can help savers to shop around to find a drawdown product that best meets their needs.

MaPS has a key role in the development of pension dashboards - both in providing one directly, and also in overseeing the development of the technical architecture which enables the delivery of dashboards by other providers. Providing a dashboard will be a new Financial Conduct Authority regulated activity, with rules that could include signposting to MaPS guidance through pension dashboards.

## **Q6 Should the Money and Pensions Service offer enhanced guidance or limited advice for people making decisions about their pensions?**

No – we don't think MaPS' function, as set out in legislation, needs to change.

Under the Financial Guidance and Claims Act 2018, MaPS was established as a corporate body with functions relating to financial guidance. Its remit for decumulation is to provide a joined up approach to the giving of information and guidance on the options open to people in retirement. This is to support individuals to make more informed financial decisions and active choices, and supplements the financial advice market (an HMT matter).

More specifically - Pension Wise offers targeted guidance to savers about their options as they approach retirement. The Pension Advisory Service provides more tailored guidance on all areas of UK pensions to the public regardless of age.

Government's key priorities remain to enable a financial advice market that works well for firms and consumers (HMT policy), as well as make free-to-access financial guidance available to everyone who needs it.

## **Use of information and inertia**

### **Q7 Can the success of auto-enrolment in helping people save into pensions be replicated for people in retirement through investment pathways?**

FCA investment pathways are a matter for HMT policy.

Automatic enrolment has achieved a quiet revolution through getting employees into the habit of pension saving, reversing the previous decline in workplace pension participation. Participation rates are being transformed with 86% of private sector eligible employees saving into a workplace pension in 2019, up from 42% in 2012. Over this period, participation for private sector eligible women increased from 40% to 86% and for private sector eligible 22-29 year olds from 24% to 85%<sup>4</sup>. Helping people save for their futures remains a key priority for Government and the automatic enrolment duties continue to apply to all employers with eligible workers.

### **Q8 Including costs, what information do consumers need about different retirement products to make an informed choice?**

### **Q9 Are pension schemes communicating options effectively to members and are there material differences between trust-based and contract-based pension schemes?**

No - we don't believe schemes are communicating as effectively and clearly as they could. Although there are some examples of good practice, this is not the case across the board. That is why we are planning to put in place additional measures such as Simpler Annual Benefit Statements, Pensions Dashboards, Stronger Nudge, as well as planning to consult on requiring additional risk warnings and single page summaries at age 50 for savers in occupational pension schemes.

Individuals need a wide range of information to make choices about options and products – including, but not solely, about cost. There are a number of choices savers need to make and the information they need is different at different stages of the process. For example, the information savers need to inform them about the range of options on the approach to decumulation will be different to the information they need when they are at the stage of choosing between specific

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<sup>4</sup>DWP, Workplace pensions participation and savings trends: 2009 to 2019 [Link](#)

contracts or products offered by a provider. The vast majority of savers make purchases at decumulation from contract-based providers (this is governed by FCA rules). This accounts for some of the differences between requirements for trust based and contract based schemes.

All pension schemes are required to provide wake up packs and risk warnings to members as they approach retirement – these contain a range of information including options available at decumulation, and signposting to other sources of guidance.

DWP intend to consult on changing the requirements for occupational pension schemes to make them more similar to FCA requirements and improve the effectiveness of scheme communications. This change would mean occupational pensions schemes will need to issue to members, at age 50 and every 5 years thereafter, a single page summary of their scheme. This will point out that the saver may be able to make choices about how to use their pensions savings in a reasonably short period of time, and that they should start to think about these choices. A further set of generic risk warnings will also be included. This will mirror FCA requirements.

DWP continue to review the further support that might be appropriate from trust-based schemes for savers as they approach decumulation.

### **Q10 Can the issues around small pension pots be solved through behavioural changes by savers?**

No. Although saver initiated consolidation should always have a role, we do not believe the issue of deferred small pots in the Automatic Enrolment market can be answered by this route alone. The current evidence strongly suggests that some form of automated consolidation solution is also required.

Automatic enrolment has been a success, but we recognise the need for further work to address the problem of deferred, small pots and the impact on scheme members. That is why the Minister for Pensions and Financial Inclusion set up the cross-sector Working Group to help prioritise solutions, with a focus on consumers. Their [report](#)<sup>5</sup> was published on the 17th December and provides an important step in finding workable solutions to tackle the growth of deferred, small pots.

The first stage of the consolidation process is for pension providers to tackle the administrative challenges to enable large scale transfers within the mass market, working with regulators and Government – this will help to guide and inform consolidation solutions.

Any consolidation approach developed will ultimately need to be workable for the industry as a whole and the Pensions and Lifetime Savings Association (PLSA) and the Association of British Insurers (ABI) have jointly convened a new industry co-ordination group to take this work forward. Government welcomes this action and encourages industry to come together to develop solutions that put the consumer first.

**May 2021**

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<sup>5</sup> <https://www.gov.uk/government/publications/small-pension-pots-working-group/small-pots-working-group-report>