Written evidence from M&G PLC (APS0039)

About M&G PLC

M&G plc is a savings and investment company with a long-term outlook. Our aim is to grow our customers' wealth and improve their world by investing with care.

Serving customers in 28 markets across the world our broad set of asset management capabilities allows us to offer customers a series of savings and investments solutions. Where appropriate, we combine this with our capital management expertise to align these solutions with our customers' risk appetite.

In the UK, Prudential, a part of M&G PLC, is one of the nation's leading Life and Pensions companies operating a variety of pension accumulation and decumulation vehicles.

Introduction

We welcome the opportunity to provide input into this important debate.

Pension freedoms extended the opportunities for individuals to use their pension savings in a way which best suits their needs. However, with an increased number of options comes an increased need to make decisions and an increased risk that individuals make the 'wrong' (or at least 'sub optimal') decision.

Achieving a balance between giving people flexibility while also trying to help them to make the right decisions and avoid falling victim to scams can be difficult.. The solution generally involves information, guidance, or advice, but such interventions are viewed by some savers as unnecessary barriers – adding time, cost or complexity to what they believe should be a simple transaction.

Overall we believe that the current rules do a reasonable job of achieving that balance, though by their nature they are sometimes slow to adapt to new challenges. This is especially true when it comes to scams. Scammers are able to adapt their practices quickly while the legislative or regulatory response is necessarily much slower.

Tax rules can also be slow to adapt to new conditions and pension tax relief rules can also add complexity, making it harder for individuals to make decisions about how to access their pension savings.

For example, we believe that the Money Purchase Annual Allowance (MPAA), the reduced allowance which is put in place when someone accesses their pension savings, should be reviewed. During the Covid-19 pandemic some older savers are accessing their savings for understandable reasons yet the MPAA acts as a barrier to them rebuilding their pension savings as their circumstances change again. The MPAA was put in place to prevent savers abusing tax relief following the changes introduced by pension freedoms, but we believe its operation, intention and performance should be reviewed. Other methods to prevent tax-relief abuse without penalising those who find they need emergency access to their pension savings for a period of time but then at a later date wish to continue saving should be considered.

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?**

   For those that wish to make use of them the UK pensions market does offer a wide range of options. However, although these options are available access to them does vary depending on the type of scheme of which the individual is a member. Not all schemes offer all options and some have requirements which, whilst usually in place to protect members, could be seen as barriers to access.

   The primary issue for many is not the *availability* of different options but *assessing* whichever of them is (or *are*, because it is possible to take more than one) most suitable for their needs. This is further complicated by the fact that an individual's future needs are speculative – it is hard for someone to know what they may require in the future.

   This decision is made harder by the fact that the individual needs to consider not only their own current and future needs but also those of any dependents, the possible impact of future developments in public policy such as taxation and benefits, or the effects of future fund performance..,

   Prior to pension freedoms savers had limited choice and the norm was to take an income via either an annuity or a scheme pension. But the results of this were not suitable for everyone. The flexibility introduced by pensions freedoms has therefore increased choice, giving more savers access to solutions that may be better suited to their position. At the same time though this has created a more complex situation. Pension savers may be unaware of all the trade-offs they are making by accessing their savings in a particular way. In such situations people would benefit from guidance and advice.

   Flexibility means that there is a better chance of a more suitable outcome, but only if the right decisions are made, and making the right decision often requires a level of understanding of the options that most savers do not have.

   Those decisions also start to be taken much earlier than the age at which the individual may intend to retire. Pension savings can be accessed from age 55, but this may be some time before the individual is actually planning on stopping working. Decisions made at that earlier age – including whether guidance or advice should be sought - can impact significantly on the options available at the point of retirement:: choices which seem appropriate at age 55 may turn out to be poor choices by age 65.

   We also often find that by the time a saver makes contact with their provider they have already made a decision, indeed some have already 'spent the money', at least in their head.

   Whether the decision-making process is stirred by the arrival of the wake-up pack which providers are required to send, from others of a similar age telling them about their own actions, or is prompted by some other factor is unclear. Whatever the stimulus it is harder to encourage full consideration of the entire range of options when someone has already made up their mind.

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

We have no comments on this question

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

   The main considerations in the UK are tax and regulatory and as these measures are in place to protect scheme members or the Exchequer it may not be appropriate to characterise them as barriers.

   Although we are not aware of any suitable options which are currently being prevented due to barriers we do feel that a clearer, more streamlined, process for presenting new pension options to the relevant authorities and having them considered for approval would be beneficial to all parties.

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

   Although good advice, guidance and information are all available they are only effective if individuals engage with it and understand it. This is especially the case when it comes to guidance and advice. Individuals are often unaware of the differences between the two and the fact that guidance is unable to make a personal recommendation as to the most appropriate course of action.

   We believe that too often information is ignored and guidance (which may be mistaken for advice) is treated more as a barrier than as a useful intervention.

   We believe that with increased options for accessing pension savings – and the varying consequences of each - many consumers would benefit from receiving guidance. Further we believe that for a guidance process in this area to be fully effective, it needs to be more than just the provision of information. It should educate the consumer and prompt them to think about such features as:

   - their current and future objectives;
   - options to make those objectives achievable;
   - attitude to investment risk; and
   - capacity for loss.

   It should make clear the difference between guidance and advice and help the consumer decide whether they would benefit from advice and the questions they should ask when accessing advice.

   Although savers can choose to take advice, they often see it as expensive and many adviser firms focus on higher new worth consumers leaving others to make savings and investments decisions themselves.

   Alternatively while 'guidance' exists through the Money and Pensions Service (MaPS) it requires the individual to move outside of the process of accessing their pension in which they are engaged with their provider.

   The choice currently faced by consumers is relatively limited. At one end is 'information' - the consumer is simply given the information they may need and left to make a decision -

and at the other end is advice, where a recommendation for a particular course of action is made.

Guidance sits between these two and aims to help the individual navigate through the available information and guide them towards a good choice. However we believe that, at present, guidance tends to be too close to the 'information' end of the spectrum, when many consumers would benefit from guidance closer to the advice end (a form of 'simplified advice').

We believe this 'simplified advice' could be offered by pension providers.

There has been reluctance to develop such simplified advice models for a wider range of consumers with smaller pension savings and this may be because the costs of meeting the regulatory requirements are identical to those that come from a full advice service. A regulatory environment which is able to distinguish between *simplified* advice (where advice could only be provided on straightforward financial needs and products) and *full* advice would encourage firms to consider developing new models at charging levels that reflect the different costs of each.

A basic advice regime has existed for some time for stakeholder products, but has had very little take up, in part due to the fact that stakeholder charging limits did not allow for commission levels to be paid at a level that made it commercially viable for advisers. In an adviser charging world, we think there may be merit in looking at this advice model again and especially to consider whether simple, non-stakeholder, products could be included as part of range of products which could be included in basic advice.

We also think there is merit in understanding whether the regulatory framework could allow for a more comprehensive guidance model to be developed. Currently, guidance models offered by product providers are restricted to the provision of factual information when accompanying a product sale. Firms that have developed such models have tended to do so on a prescriptive basis in order to mitigate any perceived risk of accumulating liabilities. A guidance model which allows for a customer to be prompted to think about their objectives, affordability, attitude to risk and capacity for loss, together with access to information to help them understand impacts, could have merit and be of greater practical use in helping the consumer make a good decision (including helping them understand whether they would benefit from advice).

Additionally it is worth noting, as we indicate in our response to question 1, that by the time someone reaches the age they can access their savings it may be almost too late to 'guide them' towards certain actions as they may already have made a decision in their own mind. In such cases a single guidance or even advice session which takes place after this decision has already been effectively made may have less impact. It is therefore important that information, and perhaps a form of simplified guidance, takes place much earlier– during accumulation rather than simply at the point of decumulation.

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 (Pension Wise) has a significant role to play in helping people to access the help which can support their decision making. However, as mentioned above we believe that the guidance provided by MaPS / Pension Wise tends to lie at the 'information' end of the guidance scale and therefore savers will still need to make appropriate decisions based on that ‘guided information’.

The possible outcomes from the consultation recently published by FCA could increase the take-up of Pension Wise guidance by requiring providers to book appointments for savers and we look forward to seeing how that consultation, and any resulting changes, progress.

We also believe that MaPS is best placed to offer people wide ranging information and guidance on general financial health.

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

   We believe that enhanced guidance, or some sort of simplified advice (which may be the same or similar things, depending on definitions), are potentially valuable tools in helping people make the best use of their pension savings. Whilst MaPS may have a role to play in this process we do not believe that it is necessarily best placed to provide this form of advice. As we set out above we believe that an effective solution would be to amend the regulatory regime to allow product providers to offer appropriately regulated, simplified advice to savers.

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

   At its heart automatic enrolment operates on the principle that ‘saving something is better than saving nothing’. In other words it is rarely the wrong decision for someone to pay into a pension under automatic enrolment and therefore advice, and even guidance, on the subject is not essential (as it is unlikely that the individual will lose out).

   However this is not the same situation when an individual comes to access their savings when the number of factors which should be taken into account, and the potential consequences of any decision, are far greater.

   Whist investment pathways can suggest a ‘suitable for the majority’ investment, for those who opt to place their pension savings in an income producing solution (such as drawdown) it does not help with the decision about whether such a product is right in the first place, nor is it able to take an individual’s circumstances into account.

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

   We believe that there are a significant number of factors involved in making an informed choice. The number and nature of these factors are such that it is unlikely many people would be able to make the optimal decision on their own, regardless of the amount of information supplied.

   Often it is not the product features which are important but other factors such as an individual’s goals, their health, or the value of their other savings and assets. Once someone has determined that, for example, an income drawdown product is the most suitable option for them then comparison becomes feasible. But it is often that initial determination which is most difficult.

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

We believe that communication is effective but that the complexity of the subject and the lack of simplified advice means things could be better. As we articulate elsewhere we do not feel that, for the majority of savers, information is enough.

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

It is important to clarify what small pots issues we are seeking to address as the solutions may be different. Conflating different issues may lead to negative unintended consequences. In terms of member detriment, having savings spread across multiple schemes is not always a bad thing as it may allow access to different types of investment and the retention of certain accrued, non-transferable, benefits. In addition the charges are the same whether someone has 10 pots each charging 0.5% or one pot charging 0.5%.

When it comes to maintaining contact with different schemes consolidation may help, but so too may pensions dashboards. The latter could be more effective as even when an individual only has one pension scheme it does not mean they maintain contact with it. Where consolidation of small pots may offer direct member benefit is when it comes to accessing their savings. This is because a larger, consolidated, pot may increase their available options and / or may influence their decision about access towards more optimal solutions.

Increased engagement with their pension provider (and therefore their pension savings) and a larger pension pot as someone approaches retirement may improve outcomes. However, as with other aspects of pensions, it is unlikely that these changes alone, or even simply providing people with more information, will have a particular desired impact on behaviours.

A behavioural change intervention which saw individuals encouraged or nudged to transfer their existing pension when they commence a new one could address the issue of small pots, but it may also cause some concerns.

Unless the individual fully understood the all options and outcomes possible detriment could still occur. For example, if an individual left a scheme which had a lower charge, or one which provided a benefit not replicated on transfer. Under the current proposals being put forward by government the protection which would allow those with a right to take their pension at age 55 to continue to do so may be lost if the individual transferred. In cases such as this encouraging people to transfer to reduce the number of small pots may lead to them being disadvantaged in other respects.

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