Written evidence from the Association of British Insurers (APS0043)

Executive Summary

1. The pensions freedoms revolutionised the retirement landscape, with people having far more choice in retirement. Over £42billion has been flexibly withdrawn since 2015. However, people are navigating complex retirement decisions, often unsupported, and many are taking money out quickly. Current retirees are likely to rely on a mixture of Defined Benefit (DB) and Defined Contribution (DC) pensions. As a result, most will not face financial problems if they exhaust their DC pots. But in the future, more people will rely on DC pensions, often exclusively. By 2060, the number of people reaching retirement with only DC savings could be as high as 50%"[1]. This means there will be much more at stake when they make retirement decisions. Better safeguards are needed to prevent risks to customers both now and in the future, and to future proof the freedoms.

2. FCA and ABI data indicates that when pots have been accessed, many have been fully withdrawn. Whilst these may be small pots, and individuals may have other income sources, this is a concerning trend. Prior to the Covid-19 pandemic, data indicated that full withdrawals had increased to the highest level since the reforms, particularly among those age 55-64. Four in ten flexible income withdrawals were at an unsustainable annual rate of 8% and over. Whilst the pandemic saw individuals press pause on withdrawing from their pension savings, there is concern individuals may seek to use their pension to support them financially as the economic consequences of the pandemic play out.

3. The freedoms have made a flexible income in retirement available to many more people, and the retirement market has developed products to meet these needs. There are a wide range of products available however the unmet needs in the retirement market are around the level of support customers require. An even wider range of products could be available at a more affordable cost if changes are made to the prudential regulatory regime. The Government's current review of Solvency II presents the opportunity to make changes to key elements of this framework (the Matching Adjustment and the Risk Margin in particular) to realise this goal.

4. Accessing pension savings can involve complicated decisions. There is now a greater need for advice and guidance to prevent consumers making irreversible decisions with unexpected consequences. Pension Wise users are more knowledgeable and confident than non-users and are exceptionally positive about the service. But take up is low, and we strongly support testing interventions to ensure more people receive impartial guidance from Pension Wise from age 50.

5. Similarly, take up of regulated financial advice is low, with ABI research indicating 72% of people are unwilling to pay for advice. There is a critical need going unmet, and we believe the Money and Pensions Service (MaPS) and pension providers should be able to offer enhanced guidance to better support savers. This will require changes to the advice-guidance boundary in specific circumstances where there is a customer need. For example, to enable firms to warn customers about unsustainable withdrawal rates, potential scams, and support better decision making.

6. In order to better support savers who do not proactively make decisions, the investment pathways are a welcome development to guide pension savers into products or

[1] PPI *The evolving retirement landscape*

investments that may better suit their needs. Previous FCA research indicated that people 'followed the path of least resistance' when making retirement decisions, so requiring an active choice will mitigate the risk of investments not matching a customer's intentions. But prompts and active interventions to engage savers are also needed throughout retirement, in particular to help customers make decisions about when and how much to withdraw.

7. The challenges of retirement decisions are connected to challenges in pension savings policy, and some of the solutions are the same:

   - Pensions dashboards. This will enable consumers to find and engage with all their pension pots in an online location of their choice;
   - The ABI is involved with industry efforts to find solutions for small pots beyond pensions dashboards;
   - Increase workplace pensions savings rates. The amount saved in workplace pensions must be increased significantly so that more people are able to make meaningful use of the flexibility they have.

Inquiry 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?

8. The pension freedoms have given people far greater flexibility in how they can access their pensions. There is now a general consensus across the industry and government that a policy of this kind was needed, and that improvements need to be made so that more people receive help to make informed decisions and avoid poor outcomes. Since the freedoms, providers have developed new products to ensure customers have flexible options. There is now a wide range of retirement products offered by our members, which deliver the aim of the reforms and enable customers to access their pension as a single lump sum, a number of lump sums, as a guaranteed income for life or as a flexible income, or a combination of those. These flexible options are now available to everyone – compared to before 2014/15, where flexible income had mainly been available through financial advisers with minimum pot sizes often over £100,000. Most providers have made flexible income available to customers without requiring them to receive regulated advice and with much lower minima or none at all. Occupational schemes are less likely to offer flexible options, and we support proposals to compel schemes to provide or signpost to products. We comment on this difference and data gaps in response to Q9 and would encourage the Committee to explore this area further.

9. The new flexibility the freedoms have afforded, provide a number of benefits to consumers:
   - It enables customers to start retirement with a flexible income before potentially securing a guaranteed income later in life when annuity rates could be higher.
   - Customers can maximise lifetime returns by remaining invested for longer while still withdrawing a lump sum and/or some income.
   - There is now more flexibility in death benefits so that money could be passed on to a beneficiary as a lump sum, or an income, or within a pension without an extra tax penalty.
   - Some in specific circumstances could benefit from using the freedoms to access their DB pensions flexibly, such as those with limited life expectancy, or those without a spouse[2].

[2] HM Treasury (2014)

- Lifestyling strategies in workplace pensions can be adapted so that they no longer de-risk early on the assumption that the saver will buy a guaranteed income[3].

10. The freedoms have also benefited individuals in specific circumstances, for example, by enabling access to savings for practical reasons. Flexibility has helped people who also have retirement income from defined benefit pensions to use their DC funds in ways that suited them, such as home improvements, supporting children, maximising leisure in their healthy years of retirement, or having ready access to funds to pay off debt or respond to urgent life events[4].

11. Products developed since 2015 have been driven by long-standing consumer preferences for both security and flexibility, with additional hybrid products combining guaranteed and flexible income being added to the market, as well as new features to help people pass their pension on to beneficiaries. However, products were also developed before the freedoms, including:

    - guaranteed income based on health and lifestyle,
    - hybrid products bringing together flexible and guaranteed income,
    - blended solutions which combine products from different providers ,
    - simpler flexible income products,
    - a risk warning system to flag sustainability concerns.

12. However, future trends may impact on consumer needs in retirement, particularly changing housing tenure and working patterns alongside a shift to DC from DB pensions, with the Pensions Policy Institute (PPI) finding in 2018 "less than 10% of today's retirees reach retirement with only DC savings and no DB entitlement. By 2060, the number of people reaching retirement with only DC savings could be as high as 50%"[5]. Therefore, guaranteed income within DC pensions will become increasingly important in future. With that in mind, Government and regulators should consider the impacts of policy on the attractiveness of the guaranteed income market. We expand on this in Q3.

13. Rising house prices and difficulty in saving for a housing deposit may mean more people rent in retirement. Only 5.6% of people aged over 65 are currently tenants in the private rental sector, although this has risen by 52% since the 2011 Census[6]. Renting on a monthly cost basis is typically more expensive than homeownership. This may mean that more renters in retirement run out of savings more quickly and fall back on means-tested benefits including housing benefit. This challenge cannot be solved through the pension system alone, and the interaction of benefits and financial services needs closer attention, as well as the interaction of housing, including renters' rights, and pensions.

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

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/332714/pensions_response_online.pdf

[3] PPI (2019) https://www.pensionspolicyinstitute.org.uk/media/3270/20190919-the-dc-future-book-2019.pdf

[4] Ignition House (2017) https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report-annex3.pdf

[5] PPI *The evolving retirement landscape*

[6] PPI, To buy or not to buy

14. There are more mature DC markets in other countries which could be examined. Two such examples are the Australia Superannuation Schemes and New Zealand's Kiwisaver.

15. However, their retirement markets are not particularly advanced and they have looked to the UK for solutions, especially in relation to guaranteed income. The idea of a Comprehensive Income Product for Retirement – with more flexibility earlier on and a guarantee later in life – has been mooted in Australia for many years, but has still not been delivered in practice.

16. Some products exist in some other markets and have disappeared from the UK market for new retail customers, for reasons explained in the answer to Q3:
    - Deferred annuities, which enable customers (or advisers or institutions on their behalf) to commit funds in advance to guarantee an income in the future at a particular rate.
    - Variable annuities, which combine the flexibility of drawdown with guarantees on the income paid or the capital invested.

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

17. Multiple providers have withdrawn innovative products from the market owing to a lack of demand and/or the high cost of delivering them; guarantees in particular come with a significant cost due to extremely low interest rates and the need to hold high levels of capital under prudential regulation. This is reflected in the drop of providers offering guaranteed income products from 14 to 5 in the period since pension freedoms were announced. Furthermore, the Finance Act 2004 still restricts what is allowed as an authorised payment, limiting innovation to annuity, drawdown or lump sums.

18. Reforms to Solvency II, specifically reductions to the Risk Margin and refinements to the Matching Adjustment, which the Government is currently reviewing, could help the market to innovate in long-term savings. Reform would mean that providers are not unduly restricted in the long-term assets in which they can invest in order to match their liabilities, while remaining subject to an extremely prudent regime that achieves its objectives of maintaining policyholder protection and financial stability. With appropriate reforms and refinements, a wider range of products could be created at more attractive rates[7], and additional providers may be attracted to the market, increasing competition. In addition, drawdown with a wider range of guarantees, such as variable annuities, could be reintroduced. Drawdown with guarantees does exist in the form of fixed-term annuities, and a guaranteed income within drawdown. These products have given customers certainty, particularly during the last year with more volatile markets, but the guarantees could be more attractively priced in a different regulatory environment.

19. There are also regulatory barriers attached to offering deferred annuities, or any product which automatically converts at a point in the future (for example, from drawdown to a guaranteed income). The provider will need to be able to allow the customer to choose a different option – including prompting them to shop around – before the conversion takes place, especially if it is an irreversible decision.

20. There are additional changes we would encourage the Committee to explore:
    - Partial transfers are not currently possible within drawdown. Being required to transfer a whole pot in drawdown can limit people's options, especially the ability

[7] https://www.abi.org.uk/news/news-articles/2021/02/post-brexit-reforms-to-financial-regulations/

to balance a guaranteed and flexible income - for example, someone may want to remain invested in drawdown, but transfer some money to another provider with a view to securing a guaranteed income. This would require a change in tax legislation.

- Arguably, there is no need for the legislative category of uncrystallised funds pensions lump sums, because exactly the same outcome can be achieved through drawdown (though the ability to offer UFPLS allows customers to withdraw in full without transferring to a new product).

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

21. Greater flexibility and more choice inevitably means that customers are exposed to a wider range of risks and therefore have a greater need for advice and guidance to help them to make informed decisions, but too many people are making complex decisions about their retirement without appropriate help. Providing clear and effective information, guidance and advice is key, which has been recognised since the ‘guidance guarantee’ was announced alongside the pension freedoms. People face behavioural biases, complex decisions and varying levels of financial capability when navigating the post-freedoms world. There is more support available to customers now than in 2015, and the establishment of the Money and Pensions Service (MaPS) and Pension Wise, is pivotal to helping decision-making, but take up of advice and guidance remains at a level that is widely regarded as too low.

22. Taking advice and guidance is important in understanding the tax implications of retirement decisions, which is frequently cited by our members as an area that customers can have difficulty with. For example:
    - The Money Purchase Annual Allowance is set at a level at which it affects people who are unlikely to be aware of its impacts on their future capacity to save, and their duties to inform other pension schemes. In response to Q9 we comment on scrapping the MPAA.
    - Many people overpay tax in drawdown, because withdrawals are charged tax at an emergency rate, on the assumption that that amount will be withdrawn monthly. Being charged an inaccurate tax rate is confusing and disengaging, as well as being disproportionate and inefficient. HMRC has now repaid £692m to Q1 2021 in overpaid tax, with up to 17,000 individual tax repayment claim forms processed in a quarter[8]. The ABI has proposed alternative ways to administer tax on drawdown.

Advice

23. Our members are strong advocates for the value of advice and signpost customers to ways to find an adviser. However, data from the International Longevity Centre (ILC) in 2017 showed that only 19.3% of 55-64 year olds had received financial advice in the previous two years, and this declines to 15.4% for those aged 65+[9].

24. There are many reasons why individuals are not inclined to take advice: some are concerned about the cost (and only wish to take one free hour at the beginning), some feel they could do it better themselves and some are apprehensive due to lack of knowledge and “appearing stupid”[10]. Other studies have suggested that individuals do

[8] From cumulative HMRC pensions newsletters.
[9] International Longevity Centre-UK (2017) https://ilcuk.org.uk/wp-content/uploads/2018/10/ILC-UK-The-Value-of-Financial-Advice.pdf
[10] The People’s Pension and State Street Global Advisors (2016) https://bandce.co.uk/wp-

not appreciate the value of receiving advice, and that people do not want to plan ahead at the point of taking tax-free cash[11]. Furthermore, ABI polling demonstrated that 72% of people were not willing to pay for financial advice either digitally or face-to-face, and there were mixed views on how they want to receive guidance, suggesting there needs to be a range of options available to suit individual needs.

26. While we recognise remaining concerns about the functioning of the advice market and how it is regulated, advice remains critical for many in the retirement market. New forms of advice, including advice made available digitally or via the workplace, at lower cost or on a one-off basis, will help more people – especially those with less assets and income than current advised clients – to receive a personal recommendation.

27. While the market will continue to develop, there are policy interventions that can support the use of advice. A review of the incentives for employers to offer advice in the workplace through the Income and Tax Act 2003 section 308C could be considered by the Committee, both in terms of the breadth (currently it is restricted to "pension" advice rather than "retirement" advice); and the size of the exemption, which could be increased to £1,000 for each tax year. A similar tax-deductible allowance against profits could also be considered for the self-employed. Separately, for individuals, demand for the Pension Advice Allowance has been low, and would not be transformational, but increasing the limit to £1,500 to use on one occasion (rather than £500 on three occasions) would provide some incremental help.

Impartial pensions guidance

28. Pension Wise offers impartial guidance in helping people to make better decisions in how to use their DC pension savings and enjoys high consumer satisfaction scores, 94% in October 2020[12], with many other impressive results in its annual service evaluations. The proportion saying they are *very* satisfied has also increased to 77%, vs. 73% in 2018/19 and 69% in 2017/18. Pension Wise users are significantly more confident and knowledgeable than people who do not use the service, with users also found to be better placed to spot and avoid pension scams than non-users[13]. People are made aware of the service through advertising and by pension providers signposting to the service; when Pension Wise users are asked how they heard about the service, pension providers were cited most often, accounting for 52% in the most recent data in October 2020, reflecting pension providers' commitment to the service and supporting increased usage.

29. The latest available pensions access data from the Financial Conduct Authority show that only a minority (14%) of the 670,000 pension pots accessed between April 2019 and March 2020 were accessed after the saver had used a Pension Wise appointment, down from 15% in the preceding 12 months[14]. Whilst there has been some progress with the take-up of Pension Wise increasing to 159,000 appointments in 2019/20 compared to

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content/uploads/2016/03/ssga-tpp-report-new-choices-big-decisions.pdf

[11] Defined Contribution Investment Forum (2019) https://dcif.co.uk/wp-content/uploads/2019/11/dcif-2019-evolution-not-revolution-final-1.pdf

[12] Money and Pensions Service (2020) https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf

[13] DWP (2018) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775610/pension-wise-service-evaluation-2017-18.pdf

[14] FCA Retirement Income Data (2020) https://www.fca.org.uk/data/retirement-income-market-data

130,000 in 2018/19[15], it is clear that there is a material gap between today's usage and the government's stated ambition to ensure using the service becomes the norm Reasons for not using the service have included that: people knew the service could not provide personal advice, negative feedback in the media about the Pension Wise advisers, they would not learn more than is on the website, or that they would prefer to access a one free hour session with a financial adviser[16]. In response to Q5 we set out ways to increase usage of Pension Wise.

Guidance by providers

30. Providers have a key role to play in supporting customers to choose retirement options through information and guidance. Even with a fully effective advice market and a well-used Pension Wise guidance service, providers are often the first port of call and always a necessary step to accessing a pension and will have information about a customer's pension benefits with that provider immediately to hand.

31. Providers, as well as employers and others, provide telephone and online guidance, as well as written communications before and during retirement. We support the efforts of our members, the DWP and others to trial Mid-Life MOTs and other similar interventions.

32. Firms would, however, like to be able to do more to help customers, and to have the ability to offer greater assistance without giving advice in order to avert customer detriment and to help customers achieve better outcomes. We expand on this in response to Q6.

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

33. MaPS has a vital role in supporting people's financial decision making, when accessing their pensions for the first time, but also before and after that. As noted above, regulated financial advice will continue to serve the more affluent and has potential to expand to those with less income and assets; and providers, schemes and others also have an important role in helping people to make decisions, including through dashboards. As the principal decision-making support mechanism of the pension freedoms policy, Pension Wise has an especially important role. Yet concerns remain over stubbornly low take up levels for Pension Wise appointments among non-advised savers.

34. The ABI and members support the proposals currently being consulted upon by the FCA for a 'stronger nudge' to guidance from Pension Wise, following trials involving our members, which showed a fourfold increase from 2.8% to 11%[17]. However, the limited impact achieved by these trials shows this approach will not be enough to make usage of Pension Wise the norm; to achieve that, bold, transformational measures that go beyond the 'stronger nudge' will be necessary, but such measures should be tested. In particular, nudging to guidance is known to be more effective when customers are considering their options, rather than when they have already made a decision. Ways to make the process as easy as possible for customers should be explored, including automatically booking appointments for them from age 50

[15] Money Marketing (2020) https://www.moneymarketing.co.uk/news/pension-wise-appointments-increase-49/
[16] The People's Pension and State Street Global Advisors (2016) https://bandce.co.uk/wp-content/uploads/2016/03/ssga-tpp-report-new-choices-big-decisions.pdf
[17] https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf

35. We also believe that guidance tailored to a customer's age is important. Therefore, we make two recommendations for MaPS to incorporate into its Corporate Plan:

- Further work to explore prompts and other interventions to use Pension Wise from age 50, including working with providers to incorporate such interventions into their own processes.
- A new service, similar to Pension Wise, but targeted at people who have already started accessing a pension and focused on preparing for later life; this would also include guidance on topics such as planning for social care costs and powers of attorney. Accessing the State Pension, or an age of 70 or 75 could be used as triggers to access the service. It would be developed by MaPS but other organisations could be accredited to deliver some or all of it.

36. In the future, consumers will be able to see all their pension pots in one place through pensions dashboards. Many parties will be able to offer pensions dashboards, and therefore it is important that the consumer protections around dashboards are robust enough to ensure the quality and safety of those offering them, and flexible enough to ensure they meet the needs of a wide range of customers. In that context, the MaPS dashboard can focus on serving customers with a straightforward need. Although the data standards and design standards are yet to be finalised, it will be helpful to customers who are accessing their pensions for the first time if the MaPS dashboard can:
    - Educate users on the commonly used pension terms
    - Signpost users to advice and guidance services while they are assessing the information
    - Enable users to book a Pension Wise appointment
    - Depending on the user's age, provide targeted information on retirement planning

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

37. The Money and Pensions Service should be able to go further in helping people make decisions, and so should others, such as employers, pension providers and schemes. There is a critical unmet need as the mass market is currently not well served.

38. However, it is important to distinguish between enhanced guidance and limited advice. These concepts are not clearly defined, but the latter is likely to be a regulated activity involving a personal recommendation, which may include recommending a product or provider. For the Money and Pensions Service, recommending a product or provider would be a step too far – but they should be able to take customers further to help them make better and informed decisions, through an enhanced guidance service.

39. Pensions are a special case for offering an enhanced guidance service, especially where it does not involve the sale of a product. For example, providers and schemes do not necessarily have a commercial incentive (and therefore a conflict of interest) to recommend a course of action for investments or withdrawals.

40. This could be achieved by a change in the boundary between advice and guidance in specific circumstances where there are known risks or missed opportunities for consumers, and clarification on where the boundary lies in some situations. The ABI has long advocated this move to a more suitable regulatory framework which would help

facilitate better outcomes for consumers and would enable MaPS to go further in its guidance.

41. The FCA has produced Perimeter Guidance about the advice boundary, which has been helpful but has not gone far enough. ABI members believe there are many more positive interventions that could be enabled by a change in the boundary in relation to retirement decisions. For example, the distribution of 'people like you' case studies, digital engagement with personalised guidance, and having a greater ability to convey to consumers that a decision may be detrimental to their desired outcomes.

42. At the moment the issues of liability and reputational risk lead firms to operate well within what may be possible. Enabling them to offer a more user-friendly customer experience that tries to deal with people's reasonable questions seems both desirable and achievable. We see a greater role for pension providers to offer personalised guidance without triggering a full and invasive fact-find and personal recommendation. This will require regulatory and likely legislative change to clarify the advice/guidance boundary or move it in specific circumstances where there is a customer need, which could include accessing pensions; we are working constructively with the FCA and will be submitting proposals to them.

43. The current situation leaves vulnerable customers more susceptible to informal advice sources and in some cases to exploitation by scammers. Vulnerability manifests itself not only when people make purchase decisions but also in divestment. Firms sometimes struggle to find the best response to insistent customers who want to withdraw funds from regulated investments in order to take on risks that they may not understand. Even more serious detriment is caused by scammers coaching people on what to say to providers who warn them about the risks, framing this as an attempt to prevent the customer leaving their services. There is no mis-selling liability for firms who let vulnerable customers make bad decisions about where to move their money, however, there is a need for regulators to support firms in delivering focused guidance or advice to departing policyholders in addition to new or repeat customers.

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

44. The success of auto-enrolment is only partially relevant to retirement decisions (not just investment pathways), and it is important to note the significant differences between savings and retirement. It is obviously true that there is a disconnect between the inertia of auto-enrolment and the active decisions required in retirement, but there are important reasons for that.

45. There is a fundamental difference between savings and retirement decisions: objectives for saving are broadly consistent across the population and might only vary in line with attitude to risk and investment preference, so automatic enrolment into a default fund will be right for the vast majority of people. Retirement decisions, on the other hand, need to reflect the rich diversity of people's objectives for retirement and their family circumstances. This flexibility is the main benefit of the pension freedoms. The challenge is to simplify those choices.

46. In that context, the investment pathways are a welcome innovation. Simplifying the decision-making process and providing simple explanations based on what customers intend to do will help them to match their investments to their retirement plans. However, pathways come after the customer has made a product choice, and later in the journey

than attempts to engage savers in the guidance process – so connections to automatic enrolment are limited.

47. While the options provided by investment pathways should offer better outcomes for most consumers, the choices on offer are necessarily limited. There are some concerns that investment pathways may be overly prescriptive, that not many customers will choose them, or that many customers will change their minds while on a pathway; therefore, it is important that the FCA's post-implementation review looks at the customer experience of pathways and whether any rules should be amended, and not just compliance and the level of charges.

48. It is obvious that investment pathways do not provide the entire solution to retirement decisions, and no-one envisaged that they would. In particular, customers need to make choices about withdrawals – this is a very personal choice, and will again depend on needs and circumstances: health, dependants, objectives for earlier and later retirement, and wider financial circumstances.

49. Unlike automatic enrolment into saving, a single default for retirement will be inappropriate for many people. But there is more that providers and schemes can do to support customers to make those decisions. The ABI will soon publish a report on what providers currently do, and what they could do, in that regard.

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

50. Customers' information needs evolve over time and, in particular, will change in preparation for retirement, when making initial retirement choices, and during retirement. It is not just information about the available customers need, but a wider range of information about withdrawals, investments, tax implications and longevity detail.

51. In 2019, the ABI published a guide to communications through the life course[18], setting out how providers can and do offer tailored and phased communications. For those age 50 to State Pension age it said:

Purpose of communication

- Encourage consumers to actively start planning for retirement and rectifying any savings shortfall.
- Introduce the products that they will shortly make a choice between.
- Prompt consumers to use guidance as a norm.
- Encourage consumers to book a guidance session soon after their 50th birthday.

Examples of key messages

"We recommend you talk to the Money and Pensions Service, you are entitled to an appointment with them and they can help you make sense of retirement."

"From age 55 you will be able to access your pension, but that doesn't mean you should. This money has to last a lifetime."

"You have a lot of choices in how to use your retirement savings: guaranteed income for life, flexible access, and partial withdrawals are all options."

18 https://www.abi.org.uk/globalassets/files/publications/public/lts/2019/abi_bro7215_comms_thro_life_v5.pdf

52. For those at older ages it said:

Purpose of communication

- Use simple terms to explain how investments have performed and the impact on income.
- Help consumers decide how much to withdraw.
- Remind consumers who are still invested that they still have choices they can make.

Examples of key messages

"Your pension fund is invested and can grow or shrink over the year."

"The average consumer in your position used X% of their pension fund per year."

"As you get older you might want to consider buying a guaranteed income for life."

53. The message depends on the purpose of the communication. Pre-retirement communications, sometimes known as 'wake-up packs', now simply state basic information about a customer's pension and their options, and signpost to impartial Pension Wise guidance.

54. With the increased flexibility, people need to know how much to withdraw, when, and how the remainder should be invested, based on what they want from retirement and the risks they are willing and able to take. It is, for example, important to show how some simple financial concepts will affect the value of people's pots and ultimately their standard of living, including investment growth and risk, the impact of inflation, withdrawal rates, costs and charges and how marginal tax rates work. But all of this information need not be included in initial communications as it would be overwhelming. It is important to layer the information and introduce it gradually, including through guidance. Government could, at least, avoid making it more complex; the recent proposals to implement the increase in Normal Minimum Pension Age to 57 introduced a protected pension age of 55 that would be far more widespread than previous protections, creating additional complexity for customers.

55. As well as choosing between types of products, customers can choose between providers of each product. The guaranteed income market has had shopping around services in place for many years, with straightforward comparison on commercial sites and MaPS as well as through advisers, with additional interventions from the industry and regulators to promote shopping around. This has been more challenging for drawdown, as there are more factors, including subjective factors, on which to compare (as identified in our blueprint for drawdown comparison in 2018[19]); the MaPS investment pathways tool is a good start and the FCA's rules introducing a standardised basis for costs charges enable MaPS or commercial sites to go further.

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

56. Communication effectiveness varies across different channels and depends on consumers' needs. There is no one-size-fits-all solution for effective communication and as set out above, needs change over time. Firms, and the FCA, have attempted to respond to that since 2015. Following the FCA's Retirement Outcomes Review, the following requirements have been introduced, in line with existing practices by some providers:

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[19] https://www.abi.org.uk/news/news-articles/2018/04/abi-releases-blueprint-for-drawdown-comparison-tool/

- One-page retirement communications (sometimes called 'wake-up packs') from age 50 and at 5-yearly intervals thereafter.
- Providers now have regulatory requirements for communicating with customers during their retirement. Annual statements must be provided to all pension customers who have partially accessed their pensions
- For investment pathway customers, new FCA guidance says providers should also send regular communications that ensure their chosen pathway is appropriate for their needs and circumstances.
- Standardised presentation, including charges, in key facts documents about retirement income products.

57. Similar requirements have not yet been introduced by DWP for trust-based pension schemes, though some of our members serving such schemes have introduced them where appropriate. There are also some unhelpful gaps in data relating to differences between trust-based and contract-based pension schemes, which makes it difficult to compare trends in the two types of scheme. For example, there is no publicly available data showing Pension Wise usage levels among trust-based schemes; and no data comparable to the FCA's about the retirement income choices made by members of those schemes.

58. While almost all of the focus had been on pre-retirement communications, there was a gap around in-retirement communications. Given that customers now face ongoing and complex decisions about investments and withdrawals in-retirement, it is important that they receive ongoing communications. This is partly addressed by the new FCA rules set out above and we do not believe further rules are required on disclosure; the ABI also published a guide to in-retirement communications to demonstrate what providers and the market as a whole can do. However, as set out above, regulations prevent providers from meeting consumer needs – especially the advice boundary[20]. This also addressed how providers might intervene when customer behaviour is not in line with the pathway they have chosen.

59. A further area of focus for our members has been in tracing gone-away customers in order to reunite them with lost pensions and other investments. In an ABI-commissioned behavioural science research project, interviewees have reported that as long as they were paying into their pension they believed they were engaged with their pensions. When moving home, pension providers are among the last 4 service providers that customers would remember to notify of their address change[21]. Younger people also find managing pensions intimidating and are much more comfortable with digital communications. The current legal requirement to send paper communications is not an effective way to engage with younger customers with their pensions and reduces providers' ability to innovate their communication strategy through other channels. Through the launch of pensions dashboards, we anticipate the situation to improve soon with people able to view their pension savings on a day to day basis in an online place of their choosing.

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

60. Automatic Enrolment has been a success in bringing more than 10m more people into pension saving. It has however led to the proliferation of small pots. This is because savers move jobs fairly frequently and have saved up small amounts in

[20] https://www.abi.org.uk/globalassets/files/publications/public/lts/2020/findingtherightpath.pdf
[21] https://www.abi.org.uk/globalassets/files/subject/public/lts/2020/abi-long-term-savings-webinar-2020---trinity-mcqueen-presentation-slides.pdf

each of their workplace pension. Engagement in pensions is also a challenge, which means that those with small pots are at risk of losing track of them. It is estimated that there could be as much as £20bn worth of lost pots in DC pension pots alone[22]. Reducing the friction to access pension information will be key to create behavioural change and improve engagement.

61. Digitalising pension information, for example through pensions dashboards, will allow consumers to find and view their pension pots 24/7. The ability for individuals to see information about all the pensions they have accumulated in a lifetime in one place, including the value of pots, and predictions of future retirement income, could be transformational for future retirees. Digital interfaces are also more familiar to users who are already using banking apps or other digital financial services. As demonstrated by recent ABI consumer polling, people are particularly keen to see their pensions information in digital formats[23]. Given that there will be multiple dashboards, there will be scope to integrate pensions information into banking and personal financial management services to maximise engagement opportunities; and for these services to give savers a wider overview of their financial resilience, and include information on their life cover and protection insurance coverage.

62. Beyond pensions dashboards, the ABI is working with the Pensions and Lifetime Savings Association, the Department for Work and Pensions (DWP) and the industry to look at what barriers to solving the small pots issue currently exist. Following the recommendations from DWP's Small pension pots working group in December last year, this work is looking at both member-initiated consolidation and automated low-cost transfers.

63. The challenge around small pots is connected to retirement decisions: analysis of the English Longitudinal Study of Ageing by researchers for Sheffield University found that "intentions [about what to do with a pension] are strongly associated with the size of the accumulated pension fund", with people with small pots not planning to secure an income. Furthermore, two pots of less than £10,000 can be cashed in by a customer without triggering the Money Purchase Annual Allowance – this adds unnecessary complexity to saving and retirement decisions and creates a perverse incentive to maintain multiple small pots. The ABI has long called for the MPAA to be scrapped and for existing rules to be used to prevent tax-free cash being recycled in a deliberate and exploitative way.

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About the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over **310,000** individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

The UK insurance industry manages investments of over **£1.6 trillion**, pays nearly **£16 billion** in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

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[22] https://www.abi.org.uk/globalassets/files/publications/public/lts/2018/20181010-ppi-bn109---lost-pensions-final.pdf
[23] https://www.abi.org.uk/news/news-articles/2020/02/scale-of-pensions-blind-spot-exposed-1-in-5-people-do-not-access-information-about-their-pension/

The ABI represents over **200** member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

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