Written evidence from The Pensions Regulator (APS0044)

Summary

Our recently published corporate strategy sets out our commitment to put the saver at the heart of all that we do. We work closely with partners across the regulatory family to make sure savers get the best possible support: protecting savers from scams and poor retirement outcomes. The matters set out in this call for evidence fall primarily within the remit of Her Majesty's Treasury, Department of Work and Pensions (DWP), the Financial Conduct Authority (FCA) and the Money and Pensions Services (MaPS) so in this submission, we focus on the areas which fall within the remit of TPR and where we support our key partners to promote good retirement outcomes for savers.

Introduction

TPR is the regulator of work-based pension schemes in the UK. Our statutory objectives are: to protect members' benefits; to reduce the risk of calls on the Pension Protection Fund (PPF); to promote, and to improve understanding of, the good administration of work-based pension schemes; to maximise employer compliance with automatic enrolment duties; and to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of TPR's functions under Part 3 of the Pensions Act 2004).

TPR is a non-departmental public body established under the Pensions Act 2004. Our sponsoring body is the DWP and Parliament sets the legal framework within which we operate.

The role of trustees' communications to support savers with retirement options

The legal requirements on how to communicate retirement options to savers are similar across occupational defined contribution (DC) and contract-based pension schemes, albeit with some key differences.

Trustees and providers are required to provide savers with details of the options available under the scheme, accompanied by risk warnings, and to make them aware of the availability of free, impartial guidance from MaPS and independent regulated financial advice.

The current differences relate to the way in which risk warnings are delivered and the timing and structure of retirement 'wake-up packs'. Providers of contract-based schemes are required to follow a process set out in FCA rules, which requires the provision of tailored risk warnings to the saver based on their particular circumstances. The minimum requirement for trustees of occupational DC schemes is to provide generic risk warnings. However, trustees may choose to personalise risk warnings, in which case we encourage them, via our guidance, to follow the process set out in the FCA's rules. TPR issued guidance (published in 2016) that supports trustees in delivering risk warnings.

In 2019, the FCA introduced new rules for contract-based schemes to provide wake-up packs from the age of 50, with risk warnings set out on a single page. These packs are then sent at least every five years until the saver has fully crystallised their DC pot. Currently, trustees of occupational DC schemes are required to provide wake-up packs at least four months before a saver's 55^{th} birthday. We are supporting DWP in developing equivalent requirements for trustees, to align disclosure requirement across the pensions sector.

Guidance and support with at-retirement options

The Pension Freedoms policy has provided greater choice for savers but also added greater complexity to their decisions at retirement. Access to appropriate advice or guidance is an important provision for those who wish to make an active decision. We welcome the 'Stronger Nudge' policy which will place new duties on trustees in relation to how they encourage savers to take up Pensions Wise guidance and we are working closely with DWP and the FCA to ensure alignment across the pensions industry.

We know that employers and trustees want to be able to do more to support their savers in making decisions, not just at retirement but throughout their working lives. Employees also look to their employers for guidance: research from CIPD (the professional body for HR and people development) shows that more than half are interested in receiving support from their employers about financial issues.
https://www.cipd.co.uk/Images/financial-well-being-why-its-important-report_tcm18-17441.pdf

We have worked with the FCA on amendments to the jointly branded *'Guide for employers and trustees on providing support with financial matters without needing to be subject to regulation'* which was included in their guidance consultation 'GC20/1 Advising on pension transfers'. This sets out how employers and trustees can provide support by providing factual information and signposting to guidance and advice without inadvertently crossing into a regulated activity. We are committed to working with the FCA on what more trustees and employers can do to support savers in making financial decisions whilst protecting against poor outcomes.

We are aware of an emerging approach for pension trustees to appoint a panel of independent financial advisers (IFAs) to advise savers expressing an interest in transferring their defined benefit (DB) pension into a DC scheme (we acknowledge this will depend upon the size and resources of the scheme). Facilitating good quality financial advice can help protect savers from the risk of being scammed, transferring into inappropriate or poor-value schemes, or making a decision that is not right for their personal circumstances.

The success of automatic enrolment (AE) has seen greater participation in workplace pensions as a result of inertia. Entry into pension arrangements does not require an active decision and due to the long-term nature of pensions, savers are not required to make active decisions about their savings until they access their benefits. It is important that savers are supported to understand and engage with their pensions during the accumulation phase.

Our forthcoming joint paper with the FCA on the Pensions Consumer Journey will call for the industry's input on how to encourage greater engagement from savers and support from their employers. We encourage trustees to take advantage of scheme communications to engage savers with their pensions. Understanding matters such as life expectancy and what lifestyle savers want in retirement is important earlier on in the accumulation phase. We welcome the PLSA's work on Retirement Living Standards and consider this to be a useful resource for trustees when designing communications.

Research indicates that many savers struggle to engage with their pensions and generally follow the path of least resistance. Many are placed into the scheme's default investment strategy. Some form of default retirement pathway, with effective governance and value for money, may be a solution for those savers who struggle to engage with the complex decisions they face at retirement as a result of pension freedoms. The FCA introduced investment pathways for savers who enter drawdown without taking advice as part of a package of remedies to address the issues identified by the Retirement Outcomes Review.

We will support DWP in considering what additional requirements may be needed for trustees in decumulation.

Whilst flexibilities for DB schemes was not an objective of Pension Freedoms, nonetheless, since 2015 we have seen a continual increase in the number of DB transfers requested by savers keen to access their pension savings flexibly. It is our view that DB transfers are unlikely to be in the best interests of most savers and it is important that savers understand the benefits of their DB pension and the risks of transferring to a DC product.

In Summer 2020, we worked with the FCA on a co-branded consumer guide, *'Considering a pension transfer: defined benefit',* which sets out key information and risks savers need to be aware of when considering whether to transfer out of a DB scheme.

We responded positively to the recommendations in the Independent review of communications and support given to British Steel Pension Scheme members, carried out by Caroline Rookes in January 2019. We have strengthened and intensified our collaborative working with our regulatory partners to improve protections for savers. The introduction of the Joint Protocol between TPR, FCA and MaPS better facilitates collaboration and allows us to respond rapidly to emerging risks of circumstances that could lead to increased transfer activity. We have set up the Pension Savers Steering Group to monitor transfers, share intelligence and drive action. In addition, the new web hub accessible through our website at https://www.thepensionsregulator.gov.uk/en/trustees/managing-db-benefits/employer-events-that-could-cause-concern-to-members provides various guides for trustees on communicating with savers. It makes clear to trustees the steps they need to take where there is a corporate event (such as a restructuring or insolvency) which concerns member and requires clear member communications.

In light of the Covid-19 pandemic, our collaborative work was ramped up. We published a joint statement with the FCA and MaPS in March 2020 urging savers to be 'ScamSmart' and visit The Pensions Advisory Service (TPAS) for guidance. We also expect trustees to issue a warning letter prepared by TPR, the FCA and TPAS to DB members who request a cash equivalent transfer value (CETV) quote. This letter contains important information which savers should consider before making a decision and also points them towards TPAS for free, impartial guidance. Our website provides guidance to trustees (published in April 2020) on our expectations for communicating with members during Covid-19 about transfers or accessing benefits. https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/communicating-to-members-during-covid-19

Pensions Dashboards

Pensions dashboards will play a key role in highlighting the benefits of workplace pensions, especially to those saving towards their later life for the first time as a result of AE. Being able to view all their pension savings in one place will help savers plan for the future and take action, if, for example, they are not saving enough for the later life they want.

We are working closely with DWP, the FCA and the Pensions Dashboards Programme (PDP), to develop the regulatory and technological framework that will maintain effective dashboards and protect consumers. We are also working with the industry to understand the challenges that must be overcome for the dashboards to achieve the policy aims.

TPR's role will be to regulate the compliance of occupational pension schemes, particularly in providing data to individuals via the dashboard. TPR has been raising awareness of the importance of good data for several years and has been working with industry to drive data improvements. We have also been tightening our regulatory grip to drive up standards of governance and administration. Going forward, TPR will deliver comprehensive engagement and education on the new dashboard duties to support trustees and scheme managers to prepare to participate.

Small pots and consolidation

Our research indicates that smaller DC schemes are less able to meet standards of good governance and administration. Therefore, consolidation of poorly run schemes is key to improving saver outcomes as evidence indicates that larger schemes and Master Trusts are more likely to meet good governance standards and have more appetite to support savers at retirement. We are beginning to see Master Trusts innovate in how they engage savers with their retirement options, with some offering drawdown, investment pathways and technological solutions to support savers.

We support DWP's plans to require DC schemes with less than £100m assets under management to compare their own costs and charges and investment returns against those of other schemes including authorised Master trusts as part of their annual Value for Member (VfM) assessment. They must also assess their governance and administration against seven key metrics. If they are unable to prove they offer VfM, they will be expected to take immediate action to wind up and move members into another scheme or set out the steps that they will take to ensure that the scheme does provide value. We will have a role in monitoring compliance with the new requirements and overseeing the consolidation of these small schemes.

Savers are also less likely to receive good value for money when they have multiple small pots with varying performance and charging structures. Improved saver engagement through tools such as Pensions Dashboards could help to address these issues in the longer term by putting the saver in control of consolidating their savings. However, there is more that industry can do now to address the existing stock of small pots and to prevent the problem continuing.

This issue requires a multifaceted approach which is why we were keen to take part in DWP's cross sector Small Pension Pots Working Group that carried out some initial analysis in this area. The Group recommended that, over the medium term, consolidation of small pots should become the norm with automated solutions complementing member-initiated transfers and consolidation. The first step towards facilitating this is to tackle administrative challenges including how to enable low-cost mass transfers and to test the concept of member exchange. The PLSA and ABI have jointly convened a new industry co-ordination group to take this work forward.

Conclusion

TPR's new corporate strategy sets out our clear plans to put the saver at the heart of everything we do. However, we have to recognise that a joined-up approach working closely with the FCA, MaPS and DWP will be crucial to ensuring all savers are encouraged to book Pension Wise appointments. While AE has been a huge success, there remains the significant challenge of engaging savers in their pension decisions and we believe that some form of default retirement pathways will help provide a solution. Our work on VfM will continue to be a key tool in helping savers, including helping deliver the benefits of consolidation, and we look forward to helping deliver a pensions dashboard which will prove a long-term benefit to everyone saving towards their retirement.

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