Written evidence from B&CE, provider of The People's Pension (APS0045)

B&CE provides The People's Pension, which is one of the UK's largest DC pension schemes. Established in 2012, the scheme now has over five million members, serves more than 98,000 employers and holds assets under management of over £13bn.

Within the next 10 years, people reliant on defined contribution (DC) pensions to supplement the state pension will start to retire in large numbers. Before this happens, policymakers and providers need to make it easier to take a sustainable income from a DC pension. Research from the PLSA shows that an overwhelming majority (84%) say they want their pensions to provide an income[1]. While people should be free to do what they want with their own retirement funds, the starting point should still be a sustainable income as that is what most people say that they want.

In a recent research report, *New Choices, Big Decisions* (NCBD), funded by B&CE and SSGA, researchers found that many people currently find it difficult to navigate the retirement choices that are available to them. NCBD findings also add to the body of evidence showing that there are powerful behavioural biases at play amongst the current cohort entering retirement. These may cause savers to value the present more than the future and draw down from their DC funds too fast, risking extinguishing their funds before they die.

Pension providers should have the freedom to offer a guided retirement income product, intended to provide a sustainable income, that mitigates the main financial risks posed by retirement. This should, among other things, include protection against longevity risk in order to deliver better outcomes for members. This guided product should be easy to access and clearly signposted through the decumulation process. Savers should know that if they find it difficult to engage in the complexity of pensions that there are good quality solutions available that are easy to access and meet the needs of most people.

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**?

Yes, currently people do have access to a wide range of products. However, the issue is less about the range of pension products available, and more about the complexity of retirement choices and degree of expertise needed to achieve a sustainable income in retirement.

This is because people will need more than one product to make the most of their DC savings and also mitigate the risks they face. An individual might benefit from a drawdown product in order to stay exposed to risk (i.e. remain invested) for longer and take a higher income than might otherwise be possible. They may subsequently need an annuity in order to manage longevity risk. In addition, they may also need a cash savings product, so that there is a fund for emergencies or unexpected events.

[1] https://www.retirementlivingstandards.org.uk/Hitting_The_Target_-_A_Vision_For_Retirement_Income_Adequacy.pdf p. 63

Savers will need to divide their capital between these different product classes and then need to choose both the most appropriate product (e.g. have they picked an annuity that continues to pay out to their spouse after their death?) and the best value product within the relevant product class. This is difficult to get right and many retirees will struggle with the complex choices required.

As such, we see the issue less as being one of whether the right products are available and more one of how to get people to select the product mix that they need and appropriately spread limited capital across multiple products.

There are two broad and potentially overlapping approaches possible:

a) To try and advise a larger proportion of those approaching decumulation.
b) To devise a solution that works for most people and that does not require complex choices. This would comprise a combination of product mix, capital allocation and suggested drawdown rate that is intended to produce a good quality result for a typical individual.

Both approaches have benefits and drawbacks.

The central drawback of advice is that individuals have, historically, been unwilling to pay for upfront advice and the costs of ongoing advice tend to be significant. In addition, we believe there is an insufficient number of trained financial advisers in the UK to approach all those with a DC pension approaching retirement. Unless there is a drastic market change, advice is likely to be the preserve of those with larger DC pots[2] (rather than those brought into saving through AE, who tend to be lower/middle income earners). Savers with pots of £250,000 or more are well served by advisers. An employee on average wages throughout their working career will likely retire with a pot in the region of £100,000 in today's values.

The primary drawback of an 'off the shelf' solution, with few decisions and little advice needed, is that it might work for the bulk of pension savers but a minority might need a fully advised approach. Without a resolution of the problems with advice: principally relating to cost, supply and willingness of people to take and pay for it, 'off the shelf' solutions seem a better prospect for the mass market.

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

No. Putting CDC to one side, suitable retirement products exist, but again, the issue is the mix and the way that they're accessed. Any future guided retirement income product could be assembled from combination of existing risk pooling and drawdown products. We need new and better ways of combining the products we have, getting people into them and enabling them to spread their capital across those different types of products.

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

[2] Nearly 88,000 pots were accessed in 2019/20 which were over the value of £100k, with 33,000 more with a value of more than £250k. FCA, 2021

There needs to be a more in depth debate about the role of CDC in decumulation but, otherwise, we do not see a need to import other product types into the UK. The problem in the UK is one of connecting people to existing suitable products, not a shortage of products.

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

No. Most retirees do not seek financial advice from a regulated professional and we do not believe that this is likely to change. According to the FCA's financial lives survey, 35% of UK adults would look to pay for the services of a financial adviser ahead of decumulation[3]. According to the FCA's findings:

- Willingness to pay for advice is actually higher among younger individuals and decreases to 28% in the 55-64 year old age group;
- Meanwhile 48% say that they would value "access to impartial information", a proportion which increases to 52% in the 55-64 year old age group;
- Relatively few (17%) say that they would be comfortable making these choices alone.

We may question whether the 48% or the 17% are able to accurately assess their capabilities and whether they are likely to make the best choices given the complexity of DC decumulation. That said, we do not really question the predictive value of the research and, rather, suspect that the 35% saying that they are willing to pay for advice may be put off when they find out that it is more expensive than they thought.

There is, though, a considerable latent demand for guidance with 77% of all those who might have needed financial advice (on any matter) willing to consider guidance from their pension provider. Furthermore, B&CE/The People's Pension commissioned a YouGov survey in March 2021, which revealed a desire amongst pension savers for 'trusted guidance'. 75% of UK adults surveyed said that they would consider taking guidance about how to make their savings last throughout retirement from a pension provider with a legal (fiduciary) duty to put their interests first. The survey presented respondents with a selection of options for spending their pension savings during retirement and showed that:

- nearly four in ten (37%) would be prepared to be 'guided' towards taking a pension that was split between an annuity and a flexible income pot (drawdown), after taking the tax-free lump sum up-front; and
- a further 35% chose a 'guaranteed regular income only' option (an annuity) after taking the tax-free lump sum.

While there is latent demand for trusted guidance, take up of existing services is lower than is desirable and many DC dependent savers feel "at sea". Our cohort of savers in NCBD felt that, once they had taken the plunge into existing forms of drawdown, that they had been left to their own devices to decide how to take their money. This supports the PLSA's conclusion that "work on supporting older members in drawdown is incomplete".[4]

[3] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

Meanwhile, take-up of the Pension Wise service, which provides limited guidance only, remains low. Although there was a 23% increase in take-up of the service in 2019/20 – with the service providing 205,000 interactions overall[5] – just under half of those entitled to a session (47%) 'have not heard of the service at all'.[6] Whilst there is positive feedback on the value of Pension Wise[7], our NCBD cohorts' experience of using Pension Wise was that it stopped far short of what they needed in order to make purchasing decisions with which they felt comfortable[8].

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 plays a valuable role for consumers who want to have an initial conversation about decumulation. But questions about where to place or invest their money requires more substantial guidance, which is beyond what the service is able to provide.

The FCA's new proposals to require pension providers to 'nudge' consumers to Pension Wise for guidance before accessing their DC pensions are a step in the right direction. But the risk remains that the guidance will not be accessed by all, or by those in most need of it.

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

In order to answer this, the pensions sector needs to form a view as to whether the line between information and financial advice is in the right place. As things stand, communications are either advice, within the meaning of the term in PERG 8.28, or they are not. This is a binary situation with the key determinant of whether a communication is advice or not being whether a communication contains an element of opinion that might constitute a recommendation.

The question seems to pose two questions: first whether there is space for a half-way house between advice and guidance, which does not currently exists. Second, whether MaPS should deliver it. We have no strong view on the former.

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[4] PLSA, The Evolution of Drawdown: At-retirement choices in trust-based DC schemes, 2020 Addendum

[5] https://moneyandpensionsservice.org.uk/2020/10/05/pension-wise-appointments-see-23-increase-in-19-20/

[6] - MaPS, Pension Wise user evaluation 2019/20: https://moneyandpensionsservice.org.uk/wpcontent/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf

[7] https://www.fca.org.uk/news/press-releases/fca-require-pension-providers-offer-book-pension-wise-appointments-consumers#:~:text=The%20Financial%20Conduct%20Authority%20(FCA,Wise%20if%20the%20consumer%20wishes.

[8] Reference needed

If it is the view of the committee that further sub-categories of advice are required then we suggest that the committee recommend the FCA review the advice line rather than suggesting that MaPS should be mandated to expand its offer.

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

This question contains two separate issues. The first relates to defaults and the second to investment pathways. In respect of defaults, default effects have worked well so far in getting more people to save. They work by aligning the path of least resistance with pension saving. This is both the best option for most people most of the time and also the thing that people said to researchers that they wanted to do.

We believe that there is a role for thinking about the way choices are presented to savers when it comes to decumulation. That does not mean that there should be an automatic enrolment style default. But, there is more work to do to properly structure choices at retirement, rather than just presenting a number of options and hoping people engage. If 84% of say they people want an income from their pension then choices at retirement should be structured to make accessing an income easy, with other options as peripheral.

The second part of the question relates to investment pathways. Investment pathways are an FCA initiative intended to address consumer harm in the retail market for non-advised drawdown. Although a good idea in principle, they are a remedy for a specific problem in a specific part of the market and may not have wider application to different problems elsewhere. We have the following specific concerns:

- Pathways are specific to non-advised Flexible Access Drawdown (FAD), although there is provision in investment pathways for someone to purchase an annuity at a later date.
- Non-advised FAD requires considerable skill to manage well as it exposes people to both longevity and sequencing risks, among others. Sequencing risk is where withdrawing money during a period where markets are falling has a disproportionately negative impact on the value of the pot;
- According to the FCA's own research[9], only a minority of people managed to pick the correct pathway in testing, suggesting that people need help even when presented with vastly simplified choices;
- There is no charge cap, coupled with a wide spread of prices in the market, so there is a danger of people being over-charged.

We believe that investment pathways could be further adapted in order to better protect savers from the risks they face. This could include:

- Providing guidance around the four options, in order to mitigate the risk of picking the wrong one;

[9] https://www.fca.org.uk/publication/research/increasing-comprehension-of-investment-pathways-for-retirement.pdf

- Guidance around blending options to mitigate retirement risks– picking more than one and allocating capital to them. The Investment options approach tends to guide people to prioritising one retirement risk to the exclusion of all others;
- Creating a 'sustainability mechanism' (at its simplest a standard rate of withdrawal offered generically) in order to reduce the risk of people running out of money;
- Adding a charge cap to reduce the risk of people being over-charged.

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

We believe that there are three items of information that consumers need in order to make an 'informed' choice about retirement products:

1. Does the product offer value for money?
2. Will the product meet their needs for retirement over time?
3. Does it protect them against the risks that they will face in retirement?

However, informed choice on its own may not be an ideal model for retirement decision making. There is now a substantive body of research which consistently points to the fact that the vast majority of DC members are simply not equipped to trade-off the numerous and complex risks they face.

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

NCBD, among other sources, suggests that DC dependent retirees do not understand the options facing them at retirement and do not understand the risks posed by different products. It is therefore tempting to answer the question "no". But it is not possible for schemes to counteract low levels of financial capability through the medium of paper and online communications, which may not even be read.

We can divide the problem into two different parts:

1. Levels of financial skill are too low for many people to make the sophisticated judgements needed at decumulation. Research consistently shows that only around 1 in 5 people have numeracy skills at or above a C at GCSE[10]. While people may be able to run a household budget with great skill, buying and operating drawdown is a harder and totally unfamiliar task requiring both different knowledge and better maths. If people leave compulsory education without a good understanding of percentages and compound interest, they will not be able to operate drawdown effectively.
2. It follows that trying to engage people at decumulation through scheme communications is not really possible. Not only is it very late in the savings process but scheme communications cannot correct problems rooted in low levels of financial capability.

[10] https://www.kcl.ac.uk/news/research-reveals-how-poor-maths-skills-are-holding-the-uk-back

That said, we take scheme communications seriously and try to make them clear, unfussy and easy to understand. But we are realistic about what even well designed communications might achieve.

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

No. The Australian Super system has had the option for savers to consolidate super through the ATO website for some years. This has had a marginal impact on the number of multiple super pots in the system. Partly as a result of this, the Australian government has chosen to automatically consolidate Super pots. The Morrison administration is currently proposing to “staple” Australian workers to their current super pot such that they only use this pot in the future and do not change provider when they change employment. This will significantly curtail the number of small pension pots.

Overall, the Australian experience suggests that voluntary consolidation through dashboards is not effective in ending a small pots problem, which is why the DWP working group proposed automatic or near automatic alternatives. They were right to do so and we continue to support this approach.

Number of superannuation accounts[11]	**2015**	**2016**	**2017**	**2018**
1	57%	60%	61%	64%
2	25%	25%	24%	23%
3	10%	9%	10%	8%
4	4%	4%	3%	3%
5	2%	1%	1%	1%
6 or more accounts	2%	1%	1%	1%
TOTAL	100%	100%	100%	100%
Individuals with 1 or 2 super accounts	82%	85%	85%	87%
Individuals with 3 or more super accounts	18%	15%	15%	13%

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[11] https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Multiple-super-accounts-data/