Written evidence from Just Group (APS0049)

Executive summary

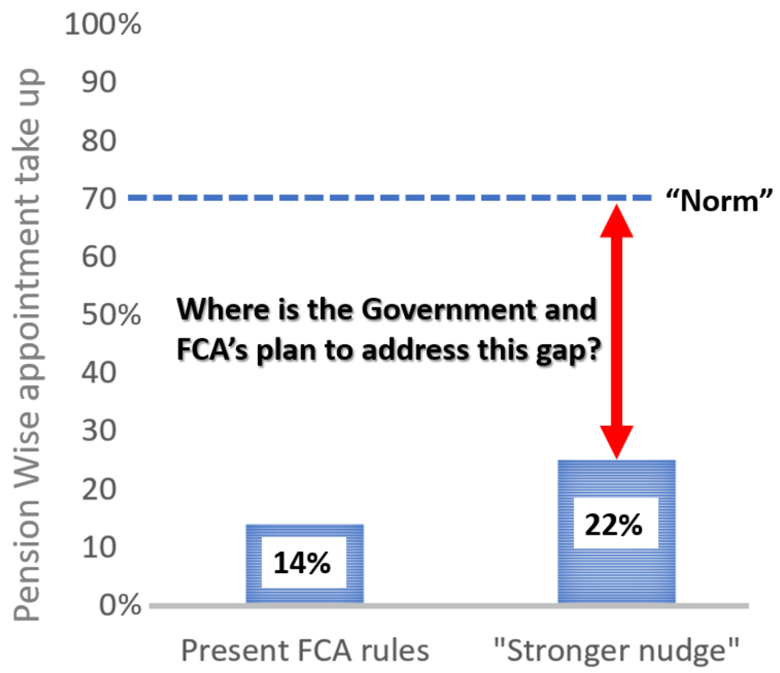
- Many Defined Contribution (DC) pension savers are poorly equipped to navigate the decisions they face when accessing their pension benefits, particularly those who do not receive impartial guidance or regulated financial advice.

- Despite widespread calls for more to be done to drive up Pension Wise guidance usage, minimal progress has been made. It has taken three years for the Financial Conduct Authority (FCA) and Department for Work & Pensions (DWP) to prepare proposals to achieve this outcome, yet there is still no clear timeframe for implementation. In its recently announced consultation, the FCA admits that its proposals – "the stronger nudge" – are unlikely to drive any significant increase in Pension Wise appointment take-up.

- The "stronger nudge" policy proposed by both the DWP and FCA is only a backstop policy solution at the point when savers may have already developed fixed thoughts on how to access their pension benefits. As such the "stronger nudge" is an intervention at the wrong time that stands no chance of delivering the scale of impact required. We believe the DWP and FCA should instead focus on getting people to Pension Wise from age 50 – five years before savers become eligible to access their pension benefits and before they have made firm decisions about how to access their benefits.

- The Pension Minister's November 2020 re-statement of the Government's desire to achieve a new "norm" of Pension Wise usage is welcome. But this is a shallow commitment without substantive plans to deliver it, and none have been offered.

- The latest FCA analysis shows how large the gap in Pension Wise appointment usage is, with just 14 per cent of DC pensions accessed after Pension Wise has been used. With the "stronger nudge" trials achieving an 8 per cent increase in Pension Wise appointment take up, the scale of the remaining gap between the proposals offered and achieving a new "norm" of Pension Wise appointment usage is clear, as illustrated below.



Note: "Norm" level identified by Opinium consumer research in January 2021 commissioned by Just Group (see answer to question 4 below)

Chart data based on [FCA Retirement income market data 2019/20] (September 2020)

- Automatically booking Pension Wise appointments for people from age 50 – with the option to opt out – has growing support. This would apply learnings from the success of auto-enrolment to deliver the sought "norm" of Pension Wise guidance usage. But the Government and FCA instead seem intent to pursue a narrow view of the pensions guidance provisions in the 2018 Financial Guidance & Claims Act.

- **We urge the Committee to press the Government and regulators to go further than the point of access provisions in the Act, which will only stifle better opportunities to transform Pension Wise appointment take up. The Government must indicate its willingness to go beyond the Act's perceived constraints – and encourage the FCA to do the same – by introducing an auto-appointment policy to supplement the "stronger nudge", in order to have any meaningful chance of achieving a "norm" of Pension Wise guidance usage.**

- **The Committee should also challenge the reasons given by the FCA, in recent correspondence with the Treasury Committee[1], for not taking forward proposals for an automatic opt-in approach to Pension Wise. The FCA has wrongly presented the widely supported auto-appointment policy as "mandatory" or "compulsory". This is incorrect. There are no advocates for a mandatory or compulsory version of the auto-appointment policy – but there is widespread support for an auto-appointment approach that incorporates an opt-out for savers who do not wish to use Pension Wise. The FCA and DWP's attempts to characterise the well-supported auto-appointment approach as mandatory or compulsory in this way is disingenuous, and itself suggests a preference to close down rather than adopt solutions that are more likely to have a meaningful positive impact on Pension Wise guidance than the "stronger nudge". Similarly, it is unclear why the content of the Parliamentary debate relating to the Pension Schemes Bill (now Act) on 16 November 2020 should prevent the FCA from exploring the merits of an opt-out, auto-appointment policy, as the FCA claims in its letter. The FCA claims also seem wholly out of step with proposals in its own recently launched consultation on 'A New Customer Duty', which includes proposals for firms to take "*all reasonable steps to avoid foreseeable harm to customers,*" and take "*all reasonable steps to enable customers to pursue their financial objectives*". We hope the Committee will ask the FCA to explain why, as an independent regulator, it believes it is unable to explore auto-appointment options despite the strong evidence supporting this policy and calls from many organisations to do so.**

We set out more detail on these points in the answers below to questions four to eight.

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

Clearly not. FCA data show that most DC pension pots are accessed without the saver having first used impartial guidance or regulated advice. Just 14 per cent of the 670,000 pension pots accessed between April 2019 and March 2020 were accessed after Pension Wise was used. As a proportion of pensions accessed after a Pension Wise appointment has been taken, this was actually a reduction from the 15 per cent recorded in the preceding 12 months.[2]

[1] Letter from Mr Nikhil Rathi, FCA CEO, to the Rt Hon. Mel Stride MP re pensions guidance, 6 May 2021
[2] Retirement income market data 2019/20, FCA, September 2020

This low level of pensions guidance use creates risks for savers because, while financial capability in the UK is generally low, understanding and confidence in relation to pensions is still worse. Pensions are complex and unfamiliar and as a result, people can be more inclined to disengage than engage.

With over 670,000 DC pension pots accessed each year there is growing concern at the outcomes for non-advised savers who don't use the impartial guidance available. As MaPS Chairman Sir Hector Sants told the Work & Pensions Select Committee in March 2020:

"*A significant number of the people who contact Pension Wise will come away saying that, after having spoken to our guidance service, they have concluded that they should do something different from what they had in mind in the first place… There is a figure that suggests that 72 per cent of people are saying they have changed their mind about what they will do as a result of talking to our guidance service. In a way, that is a simple statistic that tells you that the vast majority of people, left to their own devices, will probably make a poor decision."*

Similar concerns were expressed by Financial Conduct Authority Chairman Charles Randell to the Treasury Committee in November 2020. When asked about risks facing non-advised pension savers, Randell said:

"This issue about people making poor choices when exercising the freedoms and responsibilities that have been put on them in the last 10 years, through a variety of changes in Government policy, is probably the one that I worry about most of all. The pensions dashboard, I think, is some way off, but it will be really important that the safeguards that help to slow down decision-making in these areas and to signpost people to the best sources of guidance they can get are as strong as they humanly can be, because it is heartbreaking. I am sure your postbag is the same as mine, with people who write with absolutely heartrending stories of decisions they have made that have resulted in the loss of their life savings. One cannot ignore that. It has to be the centre of one's worry list."

Despite these concerns there has been no substantive plan offered by the Government or FCA to materially increase the rate of Pension Wise usage from today's very low levels. The FCA recently published proposals for a "stronger nudge to guidance" as part of the delayed implementation of the 2018 Financial Guidance & Claims Act. Yet the FCA itself has admitted the limitations of this approach, with its consultation stating: "*The trials also show that even after implementation of the Act provisions, take-up is likely to remain low."*[3]

As shown in the chart on page one, the "stronger nudge" trials carried out by the Money & Pensions Service delivered only a limited increase in appointment usage – an additional 8 percentage points.[4] This far less than the scale of impact required to deliver the sought "norm".

Research conducted by Opinium on behalf of Just Group in January 2021 found that the public considered making guidance usage "the norm" would mean it would have to become a behaviour common to around seven in 10 (68 per cent) of the population.[5] **To date neither the Government or FCA has sought to clarify what they believe constitutes a "norm", nor set targets for Pension Wise appointment take up.** This undermines efforts to achieve the stated objective. How will policy to increase Pensions Wise appointment take up be managed if it is not measured, and with no commitments offered?

[3] ***CP21/11 The stronger nudge to pensions guidance*** (FCA, May 2021)
[4] ***The stronger nudge evaluation report*** (MaPS, July 2020)
[5] Research conducted by Opinium on behalf of Just Group between 22 and 25 January 2021 among 2,011 UK adults aged over 45-65.

Given the risks posed to the financial wellbeing of hundreds of thousands of pension savers every year the lack of any substantive plan is cause for dismay. We encourage the Committee to call for the Government to clarify what level of participation it considers a norm, how it intends to achieve this and what plans are in train to deliver on this important objective.

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

As the delivery body for Pensions Wise, MaPS plays a key role in equipping non-advised savers with the information and understanding they need to be able to make informed pensions access decisions. User evaluation reports have consistently shown the positive impact of Pension Wise. The most recent evaluation found that:

- 94 per cent of appointment users were very or fairly satisfied with their overall experience of Pension Wise (77 per cent of whom said very satisfied and 18 per cent fairly satisfied);
- 88 per cent of appointment users said Pension Wise helped improve their understanding of their pension options;
- 70 per cent of Pension Wise users correctly answered eight true/false statements relating to their pension options compared to 43 per cent of non-users; and
- 95 per cent of Pension Wise users said their appointment left them feeling very or fairly confident in their ability to avoid pension scams, compared to 79 per cent among non-users.[6]

Given the positive impact Pension Wise is having with users, we believe there are two areas that MaPS must deliver on. First, in maintaining the quality and positive impact of Pension Wise guidance service. Second, MaPS must work with the FCA and DWP to help achieve a new "norm" of Pension Wise guidance usage among non-advised savers as quickly as possible.

It is unclear that MaPS is working with these bodies on this basis, nor that the required policy is being delivered with any pace or focus. **It is three years since the Financial Guidance & Claims Act received Royal Assent, and the FCA's proposed pension guidance rules are unlikely to be implemented before mid-2022.** Millions of pension savers risk missing out on impartial Pension Wise guidance as a result of this delay and being exposed to the reduced financial wellbeing that can come from badly informed decision making.

Having gathered a deep pool of knowledge and expertise on people's financial capability and preparedness for retirement, MaPS should be more active in making the case for impartial Pensions Wise guidance than it currently is. It would be positive to see MaPS doing more to address the stubbornly low levels of Pension Wise usage seen to date. This may include through a new focus on exploring how pension dashboards can be used to drive up Pension Wise usage – if and when pension dashboards finally arrive. But the delivery programme for driving up Pension Wise guidance must be prioritised by MaPS and we encourage the Committee to press MaPS for specific and detailed analysis on its work towards this goal.

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

[6] ***Pension Wise service evaluation 2019/20*** (MaPS, October 2020)

There may be scope for enhanced guidance and possibly even limited advice, but these are later-stage goals and should be sequenced in the appropriate order. The immediate priority must be for the Government, working with the FCA and MaPS, to achieve its stated aim of ensuring Pension Wise appointment usage becomes a “norm” among non-advised savers.

In relation to regulated advice, MaPS user analysis suggests Pension Wise users are marginally more likely to seek professional advice than non-users. So delivering the “guidance guarantee” and increasing usage of Pension Wise should provide a boost to regulated advice among those people who have their guidance session and subsequently decide they wish to seek regulated financial advice. This would be a positive outcome in our view, but it is important that MaPS should not be distracted from the immediate priority of addressing low Pension Wise take up and helping the Government to achieve the sought “norm” of Pension Wise usage.

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

We are unsure of the Committee’s intent with this question. Investment pathways are a regulatory policy solution that the FCA created as a backstop measure for pension savers who have not made any proactive decision in how to access their pension benefits by normal retirement age. Investment pathways were designed to improve consumer outcomes where people had not acted when they reached the end of the customer journey. The FCA has a range of other interventions earlier in the customer journey that seek to engage people and ensure they are presented with the full range of product and service options that might best meet customers’ needs, such as partial or full encashment, guaranteed income/annuity, drawdown, uncrystallised pension funds lump sum withdrawal or a blend of these options. The pathways policy’s utility is narrow in its scope and directs people to a single product solution – a pension drawdown product. We support their introduction, but they are not a solution that works with auto-enrolment nor should they.

Behavioural finance techniques such as auto-enrolment should be used drive positive outcomes much earlier in the customer journey, such as those proposed to automatically book a Pension Wise appointment for DC savers from age 50. **So yes, we believe auto-enrolment methods can be deployed to drive positive outcomes, but we are concerned that learnings from auto-enrolment are being ignored by the Government and regulators, who should be implementing policies aimed at ensuring savers are guided away from known bad outcomes and towards good ones in relation to pensions access decision making.**

Auto-enrolment harnesses people’s inertia and disengagement from pensions planning. The policy reflects the fact that few people are excited by the prospect of hours of analysis of their pension options, or naturally adept at making complex decisions about the unfamiliar access options faced when choosing to access their benefits. Auto-enrolment brings people into workplace pensions by defaulting them in at the point of starting a new role, instead of assuming that they will actively respond to encouragements to join their workplace pension scheme. Only a minority of people did so – as the Turner Commission concluded. By opting people into workplace pensions instead of expecting them to opt in themselves, UK workplace pension saving has become the norm.

The FCA data on Pension Wise usage noted above bear out similar disengagement. Despite the evident popularity and positive impact of Pension Wise (and regulatory requirements for pension providers to “signpost” savers to the service) the FCA data show only around one in seven pension pots are accessed after a Pension Wise appointment has been taken.

Among the reasons given by savers who choose not to take a Pension Wise appointment, MaPS analysis shows that just under half (47 per cent) have not heard of Pension Wise. Of those non-users who have heard of Pension Wise, one in five said they had insufficient time (20 per cent) or said they did not need further guidance (19 percent, including people who said they already got the information they need from a financial advisor). These figures also indicate the limited impact of the FCA’s current “wake up” pack and other pre-retirement disclosure requirements on consumers’ awareness of and inclination to use Pension Wise.

Given the evident positive impact Pension Wise is having among users Just Group believes an auto-appointment approach to enrolling people into appointments should be introduced by regulators without delay, and we encourage the Committee to press the Government and FCA on this issue. We also support the recommendation made recently by the Institute and Faculty of Actuaries that the FCA should set a "*specific and ambitious target*" for take-up of Pension Wise appointments by individuals before they access their pension.[7] This would be a transparent and sensible approach which the FCA (and DWP) should quickly engage with and act on.

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

In our view the more important question is whether consumers understand their pensions access options and the pros and cons of each? If yes, they will have a better chance of understanding the available retirement product options. But it is far from clear that most do, nor that current regulatory policy supports them.

To have any chance of ensuring their pension savings cover their income needs in retirement, non-advised consumers at least need to understand the available access options in the pension freedoms framework. Only by understanding the six key options for access can a consumer then start to consider which option (or blend of options) is likely to match their income needs.

This distinction is important. The learning process should be focused on helping savers to understand their pension access options and relate the options to their needs, as opposed to evaluating the impact of information on retirement products. Information is in plentiful supply. Regulations require pension providers to send lots of information to pension savers, and there is lots available online. But it is far from clear that this information is used by savers, trusted, or effective in equipping them to make informed decisions.

We observe that the growing support for achieving a “norm” of Pension Wise usage is likely to reflect the positive outcomes that Pension Wise has been proven to deliver among users, and the likelihood that this positive impact owes much to the real-time, impartial, expert nature of this guidance. By contrast the passive information offered by pension providers in regular communications, including the so-called pre-retirement “wake up” packs, cannot hope to match the positive benefit of 30-40 minutes with a Pension Wise guidance professional.

This latter point is true even before the longstanding, unresolved issue of pension provider conflict of interest is taken into account. Pension providers can generate profits from disengaged consumers, whereas informing savers about impartial guidance that may lead savers to better-informed

[7] ***The Great Risk Transfer*** (Institute & Faculty of Actuaries, April 2021)

outcomes could negatively impact on a provider's 'internal' retirement product sales. The impartial nature of Pension Wise guidance – and absence of commercial imperatives – is key in this respect, and reaffirms the importance of impartial guidance as opposed to passive "information" as a means of enabling informed decision making by consumers and improving demand-side competition.

About Just Group

Just Group plc ("Just") is a leading provider of retirement income solutions, care plans, Defined Benefit pension de-risking solutions and lifetime mortgages. At the core of our business is a social purpose to help people achieve a better later life, which we achieve through our approach to our market, our communities, and active contribution to key pensions, retirement and regulatory policy debates.

As of 30 June 2020 Just has helped over 650,000 customers to achieve an improved retirement, has been trusted to manage around £23 billion of customers' retirement savings and has helped homeowners release over £5.2 billion of equity from their properties. Just provides a wide range of products, advice and professional services to individual customers, financial intermediaries, corporate clients and pension scheme trustees.

Just has positively disrupted the markets it serves and has introduced innovation where better choice, service and products were long overdue and would produce better outcomes for people. As a specialist provider of products for retirement, our success is predicated upon people reaching the open market where we can show that our products offer best value and provide a fair and just option for people.

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