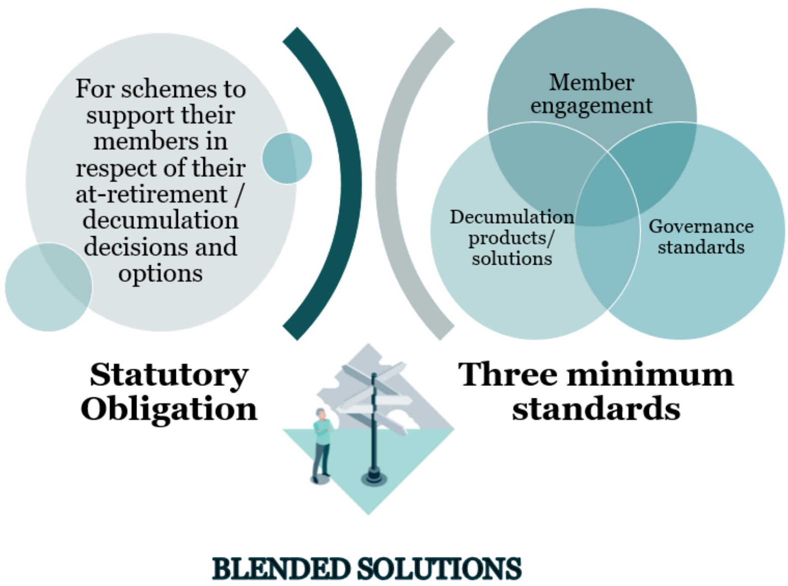
Written evidence from the Pensions and Lifetime Savings Association (APS0055)

EXECUTIVE SUMMARY

- The PLSA believes the best and most appropriate solutions to meet savers needs are likely to be products that blend the need for short term cash, sustainable drawdown of invested funds and a guaranteed income in later life. For a variety of structural reasons few of the best blended products are currently available and further innovation will be required. A bad decision at retirement could lose a saver years of their pension saving, which few can afford. Schemes can and should play a vital part in facilitating and influencing future product development, that better manage the risks for savers as DC pots grow and dependency on DC derived incomes increases. (Q.1)

- The success of automatic enrolment in changing the culture of retirement savings in the UK should not be understated, with over 10 million savers now automatically enrolled into a workplace pension.[1] By applying learning from behavioural economics and utilising the power of inertia widespread pension saving has been achieved, essential for the retirement income security of savers. However, this success is currently undermined by the failure to build on the pension freedoms and take better account of the new risks the savers face in achieving an adequate income in retirement. As more retirees rely on their DC pension saving for a greater proportion of their income in retirement we must do more to prevent savers coming to harm. We believe that a new system of support and guidance should be provided by schemes to savers at decumulation – our recommended Guided Retirement Income Choices.



- Pension freedoms have given people new possibilities and options with their saving, and savers really value these opportunities. However, a bridge is needed to help savers transition from a system that uses the power of inertia to successfully bring them into pension saving through the complex decisions they must take to access their pension saving in retirement. The industry, Government and regulators have acknowledged the challenges that savers face, but have not yet gone far enough. The public policy framework should guide savers towards good outcomes, and pension schemes and providers need to deliver well-governed, good value products and offer services that support savers in their decision making. (Q.2)

- We have however found that there are significant barriers to providing suitable decumulation options that better deliver appropriate retirement income choices. Crucially these include evidence that savers are not in a position to assess which options are best for them, and that schemes are deterred from offering the right solutions due to litigation and regulatory risks. Our Guided Retirement Income Choices therefore include carefully designed default solutions to minimise the impact of the worst outcomes associated with saver inaction, with key governance and communication standards to underpin the design and delivery, and support schemes to deliver the framework consistently. (Q.3)

- Many people struggle to receive the guidance and advice they need to make informed decisions about how they access their pensions. It is our belief that the support savers need cannot come from guidance services alone, particularly because weak engagement levels are likely to result in take up rates remaining stubbornly low. The real and perceived cost of advice is also likely to be a deterrent for the average saver. In our view, the future decumulation market will instead need to include a wraparound advice model including simplified advice alongside innovative, mass market solutions to provide support, and enhanced guidance. (Q.4)

- We believe that the Money and Pension Service (MaPS)– now MoneyHelper – should play an essential role in providing impartial, non-commercial guidance. We also believe that by working closely with employers and workplace pension schemes MaPS has the opportunity to improve financial capability and begin to tackle the advice gap. We tend to agree that dashboards will help savers identify all their pension pots however dashboards as a single channel of communication will not be a panacea for the existing problems with the update of information and guidance services. Initiatives, such as stronger nudge to guidance and examining earlier nudges and automatic appointment services, may prove significant in supporting the number of people accessing guidance and we are supportive of these. (Q.5)

- We would like to see MaPS build on its experience and expertise so that the Guider in a Pension Wise appointment can state that a particular decumulation option best suits a savers' needs. Employers and pension schemes should be empowered to give more guidance by providing greater clarity on the advice and guidance regulatory boundaries. Where necessary to facilitate better outcomes for savers in retirement the advice and guidance boundary may, in our view, need to be shifted if this could help individuals make a better decision when accessing their pension. (Q.6)

- We believe that the successes of automatic enrolment can be mirrored in decumulation as in accumulation, but do not believe that investment pathways are ambitious enough to deliver this goal. Our Guided Retirement Income Choices seek to go further than the investment pathways. The obligation on schemes to provide support at retirement, for the whole of retirement, could co-exist with the Investment Pathways, which only focus on the next 5 years. It is important that savers benefit from the new regime regardless of which type of provision, or regulatory regime, they operate under. (Q. 7)
- Consumers need a lot of information about different retirement products to make an informed choice, and may find this difficult to access and assess successfully alone. Recent PLSA research shows that 64% of savers over 55 are worried about the possibility of being scammed. 33% of people would not know how to check if an investment was genuine or a pension scam, with this figure increasing to 47% for those on lower income levels (up to £14k salaries). (Q.8)
- All schemes and providers should provide information to support savers, at the right time, starting early and continuing throughout the saver journey, however this is complicated by existing legal and regulatory constraints which limit their ability to deliver a full and complete support. Whilst differences between trust- and contract-based environments persist, we believe that comparable saver experiences should still be delivered across the market based on successful saver outcomes, irrespective of the scheme or provider type in question. (Q.9)
- We do not believe that the negative impact of multiple small pots – such as confusion, pot-by-pot decision making, eroded and lost pots - can be solved purely through behavioural changes by savers. Member-led consolidation would be insufficient to resolve the small pots problem as this only works for those savers that are sufficiently engaged and confident to take a choice to consolidate their pots. We do not find this generally to be the case. A combination of a solution designed to operate in the short-term to reduce the 'stock' of existing small pots and a solution designed to resolve the 'flow' issue in the longer term. In early 2021 a Small Pots Coordination Group was jointly set up by ourselves and the ABI to make progress on the 2020 DWP-chaired Cross Industry Working Group recommendations. (Q.10)

ABOUT THE PLSA

Our mission is to help everyone achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

We represent the defined benefit, defined contribution, master trust and local authority pension schemes that together provide a retirement income to 20 million savers in the UK and invest £1 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs and others who play an influential role in the governance, investment, administration and management of people's financial futures.

INTRODUCTION

PLSA welcomes the important work of all three phases of the *Protecting pension savers - Five years on from the pension freedoms* inquiry. Improving how savers access their pension at retirement has been a priority of ours for some years, and a topic on which we have undertaken extensive consultation with the whole of the pensions sector, including schemes, providers, advisers, consumer representatives and academics.

- Our comprehensive strategy for UK retirement saving, *Hitting the Target* (2018), included our proposals on DC decumulation[2]. This widely supported report was the result of consultation throughout 2017 and 2018 with more than 100 stakeholders from over 50 organisations and covered both how to encourage people to save enough for retirement and how to ensure people get good outcomes at retirement. This followed an extensive public consultation exercise in which our proposals achieved near universal support.
- At the end of 2020 we made recommendations for a new decumulation framework, Guided Retirement Income Choices. Our *Call for Evidence* which ran over the summer of 2020 received 25 written responses, with 15 providing specific responses to all questions posed and 6 providing extensive sources of evidence that help to address many or all of the issues raised in this phase of this Work and Pensions Select Committee inquiry[3]. During the period we also engaged with 47 individuals across the pensions sector, via seven roundtables and meetings to discuss some of the proposals we had made.

Automatic enrolment (AE) has been a great success. Participation in occupational DC schemes increased following automatic enrolment and the latest figures find that 77% of all employees were enrolled in a workplace pension scheme (compared to 47% in 2012 before the implementation of automatic enrolment).[4]

However, we believe that the evolution of DC saving, including automatic enrolment and pension freedoms, is not yet complete:

- The PLSA has called for AE savings to increase from 8% of band earnings to 12% around the end of this decade, with a 50/50 split between employers and employees[5].
- The Government and the pensions sector must do more to ensure everyone has an adequate income in retirement and pension freedoms must evolve to take account of the reality that savers face.

We believe that a new, evolved framework to support the pension freedoms should be introduced to protect as many savers as possible from bad outcomes before too many more savers come to harm.

[2] https://www.plsa.co.uk/Policy-and-Research-Defined-Contribution-Hitting-the-target-project
[3] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf
[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearnings pensiontables/2019provisionaland2018finalresults#workplace-pension-scheme-membership
[5] This would include an opt-down option for people who felt unable to afford the extra 1% of saving that would fall on them.

The industry should continue to enable freedom and choice – evidence suggests that savers value choice, even if they don't use it - but provide more support to savers to help them manage the opportunities, challenges and risks they face. Making a bad choice at retirement risks savers losing years' worth of hard earned pension saving, either through a poor selection of product or through higher fees. A key part of our proposals is the creation of a new system of support and guidance to pension savers when they reach the point of decumulation – we call this new vision for pension access the Guided Retirement Income Choices.

We estimate that more than 40% of retirees will be relying on their DC saving for a greater proportion or their only income in retirement over time[6]. In addition more people work into later life and retire more flexibly. And while choice and flexibility early on in retirement is highly valued by savers, as people age the risks of cognitive decline increase, which in turn increase the risks of poor outcomes for those ill-equipped to protect themselves.

It is important to act now to prevent savers coming to harm as it will take time for our proposals to come into force and a range of suitable product innovation to develop; decisions must be taken now to realistically come into effect within the next five years. In the future pension schemes should take on the role of supporting savers in their decumulation decisions by means of a statutory obligation to provide helpful guidance, sign-posting to suitable products designed according to appropriate governance standards.

We believe that, alongside the Work and Pensions Select Committee, our shared goal is to put the saver at the heart of the process and create a bridge between auto-enrolment and the pension freedoms.

[6] FCA, Financial Lives survey (2020) – taking into account those that stated they were saving for a DC pension (41%) compared with only 16% of the working population that have a final salary pension.

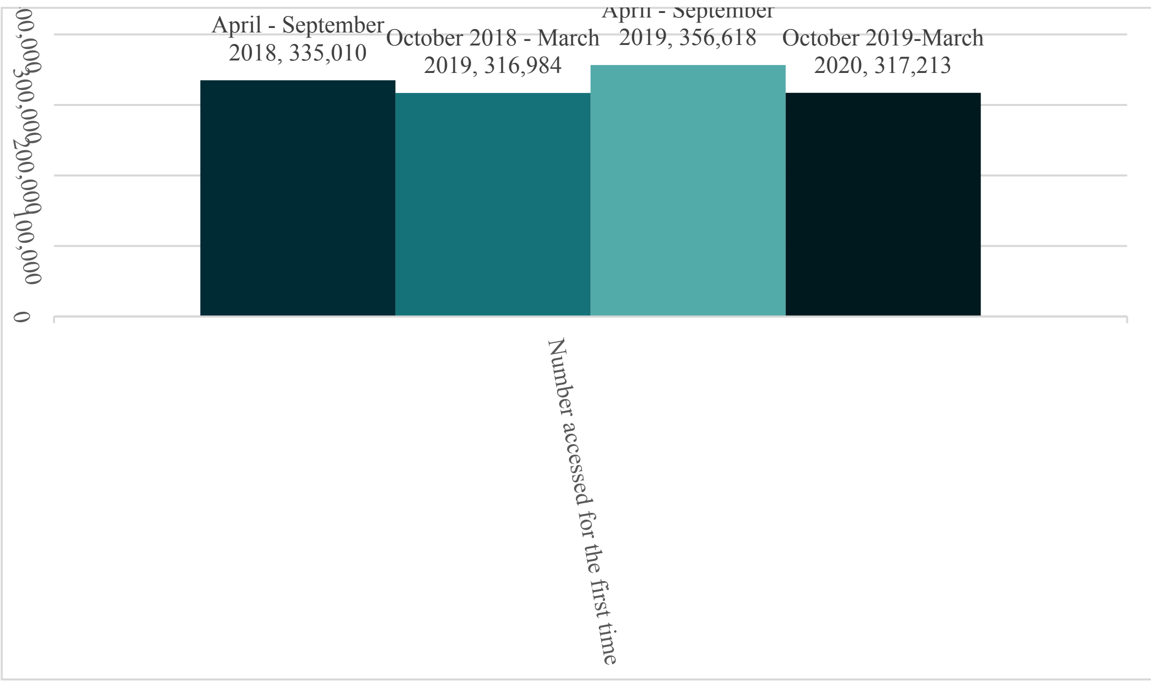
BACKGROUND

Current decumulation landscape

- *More than 600,000 DC pots are accessed every year, of which about a quarter% are between £30,000 and £100,000.*
- *The average fund size used to enter drawdown is approximately £80,000*[7].
- *A minority of pots are used to purchase an annuity, and smaller pots are much more likely to be taken as cash.*

The total value of flexible withdrawals from pensions since the pension freedoms has exceeded £42 billion[8].

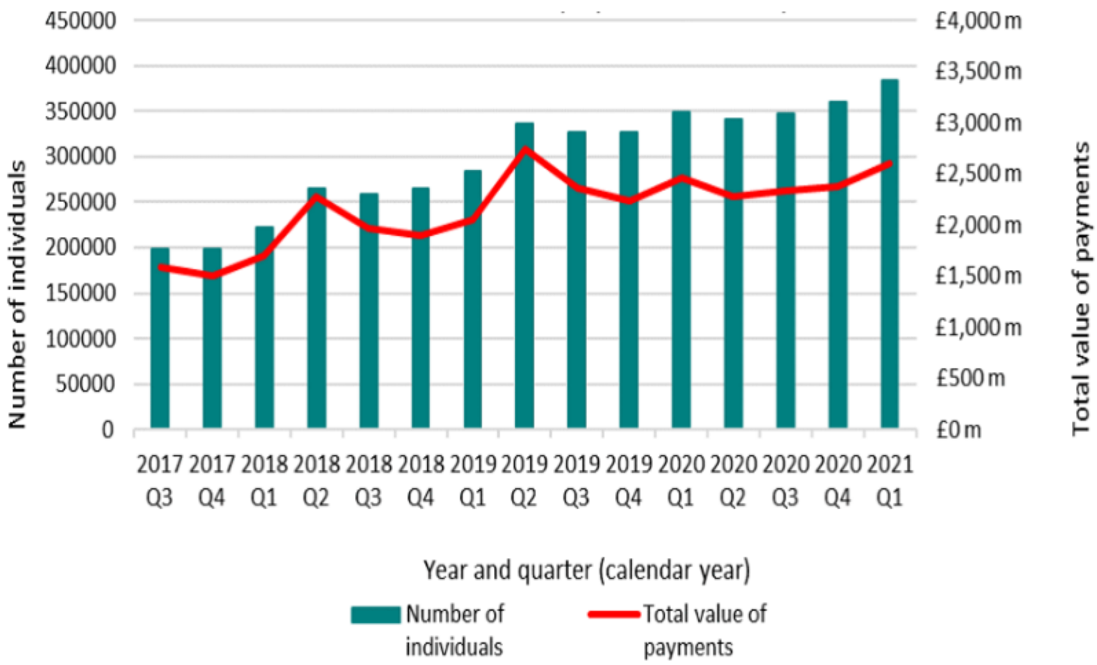
Total number of plans accessed for the first time (2018-2020, FCA)



[7] https://www.pensionspolicyinstitute.org.uk/media/3615/20200923-the-dc-future-book-in-association-with-cti-2020-edition.pdf
[8] HMRC (2021)

Number of individuals taking flexible payments from pensions and the value of flexible payments from pensions (HMRC, 2021)

The below chart illustrates that both the absolute number of individuals taking flexible payments (across DB and DC) and the total value of those payments (not including tax free elements which are not recorded) are trending upwards.



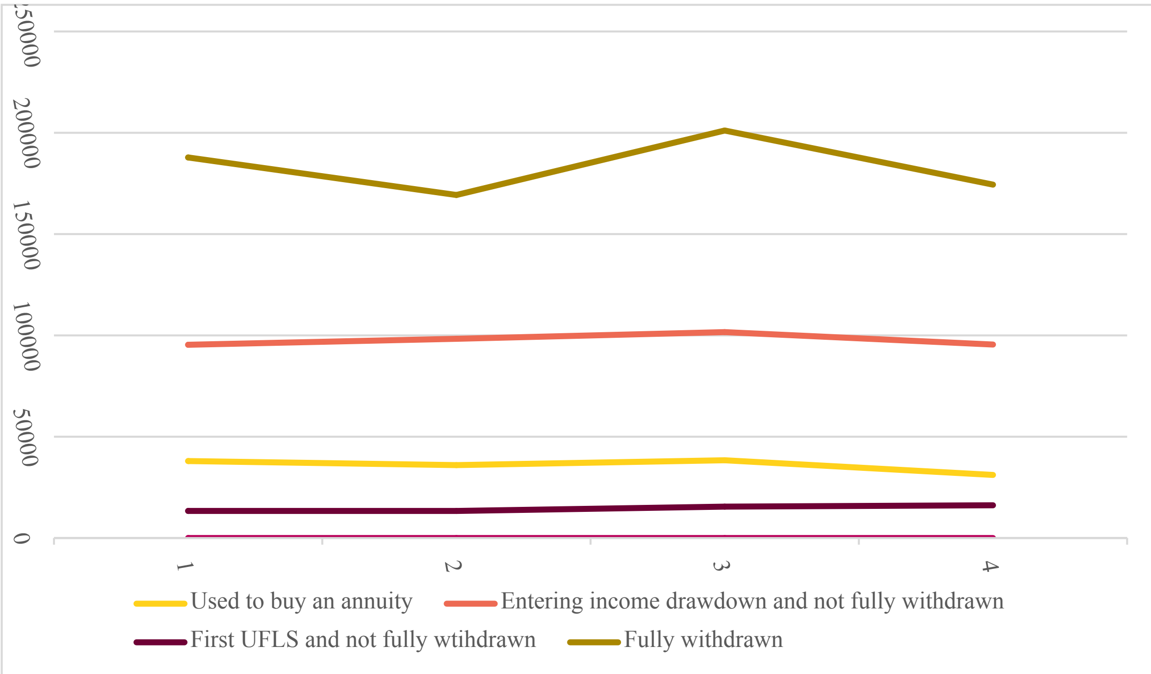
Percentage of pension plans accessed in 2019/20 by pot size and method of access (FCA, 2021)

The chart illustrates that full withdrawal is the most popular choice, and partial withdrawal the second most popular choice. The number of pots fully annuitised is low compared to other options.

CATEGORY	PARTIAL UFPLS	ANNUITY PURCHASE	PARTIAL DRAWDOWN	FULLY WITHDRAWN
£250,000 and above	0.40	0.32	4.23	0.05
£100,000 - £249,999	0.60	1.46	5.60	0.35
£50,000 - £99,999	0.83	2.25	6.89	2
£30,000 - £49,999	0.74	1.66	5.15	4
£10,000 - £29,999	1.25	2.28	5.59	14
Less than £10,000	0.88	2.34	1.79	36

Number of pension plans accessed for the first time by method of access (2018-2020, FCA)

The following chart illustrates the best available trend data for the access of DC plans over time. It illustrates that the total number of plans accessed stays reasonably constant, and that the number of plans fully withdrawn and entering drawdown dwarf those used to buy an annuity. However this chart shows us the count rather than value of pots and so it cannot be assumed that the total value of pots entering drawdown and being fully withdrawn are higher – in fact as the above table illustrated it is likely that this is not the case.



Saver needs and outcomes

- *The more than 4 million working baby boomers have the least time to save more for their retirement, or recover poor choices they have already made in accessing their pension early.*[9]
- *Millions of savers who have been automatically enrolled risk making sometimes irreversible decisions about their only pension savings without sufficient support.*
- *Without intervention the hundreds of thousands of savers are at risk of making sub-optimal choices and this is without including the effect on that fall prey to pension scams.*

Pension freedoms have given people opportunities with their saving. Multiple sources of evidence suggest that savers reacted and continue to react positively to the pension freedoms and value the opportunity for choices.[10] But prior to the freedoms drawdown and flexible income products were viewed as specialist areas often requiring financial advice before purchase or restricted to savers with higher pot values.

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[9]For example, people aged 65 and were almost twice as likely to be working in 2018 as they were in 1998, which means more than 2.7 million more over 65s were working at the end of the last decade than were working at the end of the previous decade. https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/howwouldyousupportourageingpopulation/2019-06-24

[10] Nest, The future of retirement: A retirement income blueprint for Nest's members, 2015

However research also finds savers are unable to or lack confidence in making decisions about their retirement, and that they want, at minimum, help or a 'safe' default, to limit the likelihood that they make a suboptimal choice that they later regret.

There is little evidence that retirees consider the length of their retirement, income requirements or likely pension income until the point of retirement and – when they get there – systematically underestimate their own potential life expectancy.[11] The Government's own work has found evidence that savers are exposed to significant risks when taking these decisions alone[12].

Savers postpone the decision until they feel able to dedicate the 'mental bandwidth' necessary to consider them properly[13] - and that they tend to take the path of least resistance, which can lead to poor retirement outcomes.[14] Exacerbating this is evidence to suggest that people have a high awareness of the tax-free 25% component of the Pension Freedoms, but decisions to access this appear to be often based on very optimistic views of their ability to continue to work and to save.[15]

Those who have been automatically enrolled are likely to be least well-placed to engage with retirement options as their entire pensions accumulation journey will have been based on inertia.

Today, most employees who have been automatically enrolled are in some form of Master Trust arrangement[16]. Master trusts should therefore well placed to understand and provide for the needs of the needs of the automatically enrolled in retirement, as well as being a vital component in providing 'mass membership' solutions.

Retirees have changing needs throughout retirement and as the absolute number of savers and the value of their savings increases, flexibility is needed to blend products and solutions that can meet different needs over time[17].

Advice and guidance

- *A small proportion of those accessing their pension take advice or guidance. Particularly, current available evidence suggests that those who enter drawdown and take cash rarely benefit from advice or guidance.*
- *Not only are those with smaller pots less likely to receive advice or guidance but this is also true of a significant number of people with larger pots.*
- *The proportion of savers accessing guidance services is increasing, albeit slowly.*

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[11] https://www.gov.uk/government/publications/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys

[12] https://www.gov.uk/government/publications/stronger-nudge-to-pensions-guidance-statement-of-policy-intent/stronger-nudge-to-pensions-guidance-statement-of-policy-intent#annex-evidence-and-analysis

[13] TPP & SSGA, New Choices (2016)

[14] FCA, Retirement Outcome Review: Final Report (2018)

[15] https://www.gov.uk/government/publications/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys

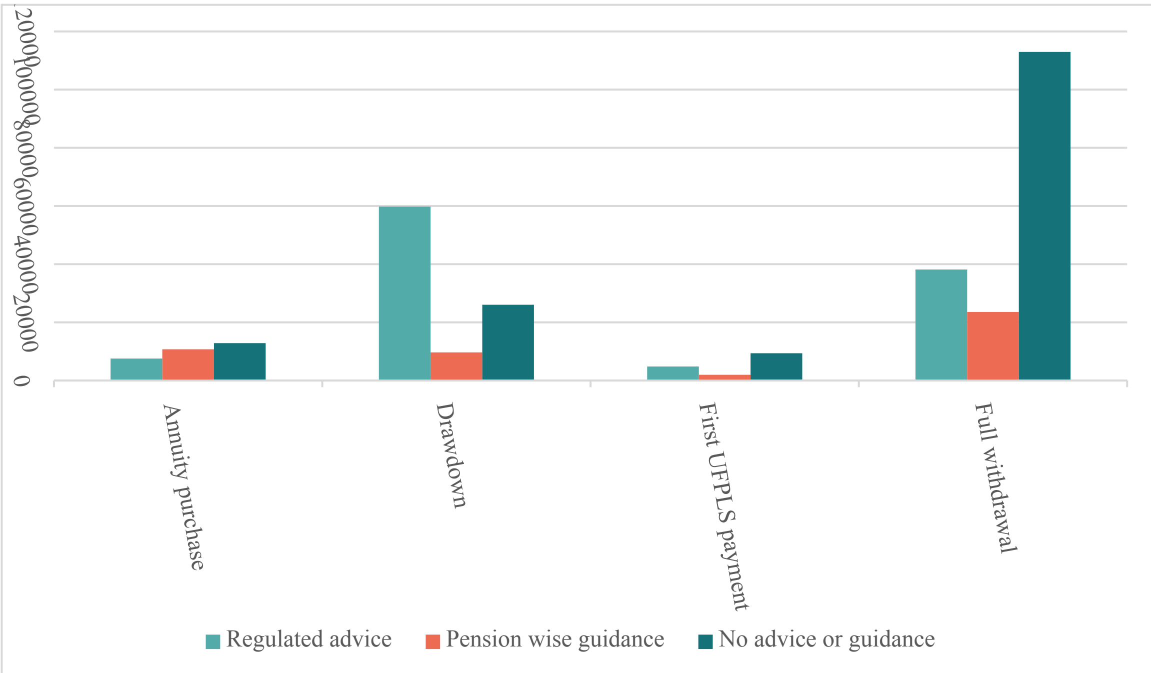
[16] This is as a result of a number of factors, including that the rise of master trusts has been accompanied by significant consolidation in the occupational DC market, especially as employers are increasingly entering fully bundled arrangements with master trusts or undertaking a bulk transfer.

[17] *The Future of Global Retirement*, Smart Pensions(2021)

Findings from the FCA review of the Financial Advice market indicate that not all consumers have appropriate access to a wide range of services to help them with financial planning, particularly those with smaller amounts of money – and that this issue has worsened in recent years.[18]

Number of pots accessed after using advice or guidance between October 2019 and March 2020 split by type of access (FCA, 2021)

The chart below illustrates how many pots are fully accessed without advice or guidance and demonstrates that pots that are fully withdrawn are highly likely to have been so without any advice or guidance.



Additionally, and in accordance with other sources of evidence, of those that entered drawdown and were not fully withdrawn 27% was without any advice or guidance.[19] Smaller pots were much more likely to fully withdrawn without advice or guidance.

However, as many as 50,000 people with medium sized pots (those between £30k and £100k) accessed them without the benefit of advice and guidance.[20] Even for larger pots (those over £100k) 12,000 people a year are accessing their pension having not received any advice[21].

DC saving and retirement in the future

- *A large proportion of the adult population are saving into a DC pension.*
- *Average pot sizes will grow significantly in the next 20 years.*

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[18] FCA, Evaluation of the Retail Distribution Review and the Financial Advice Market Review: Call For Input (2019).

[19] HMRC (2020)

[20] FCA (2021)

[21] ibid

29% of adults are contributing to a workplace DC pension (15.1m) and 4% were contributing to a non-workplace DC pension (2.1m).

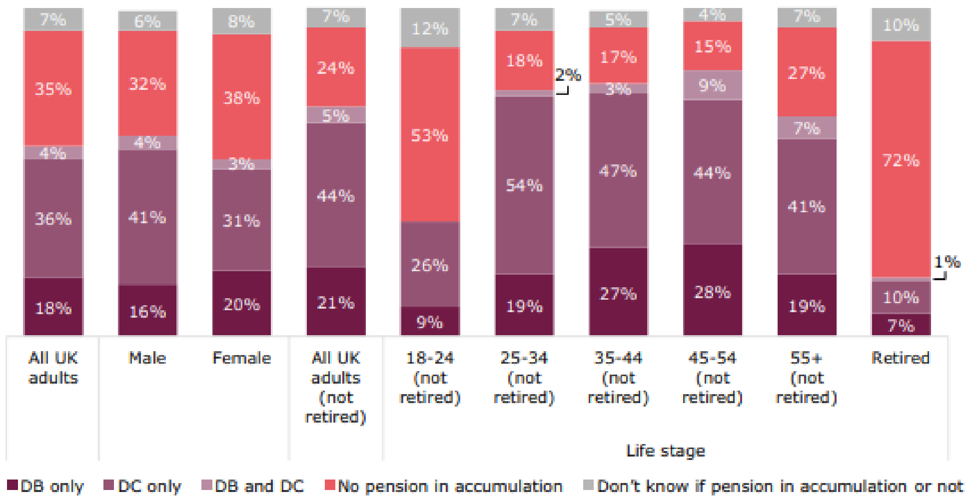
This compares to the 16% of UK adults contributing to a DB pension (8.3m).

Median DC pension pot size at State pension age could grow over the next 20 years to around £67,000 in 2039

Sources: FCA (2020), PPI (2020)

<u>Self-reported proportion of adults holding different types of accumulation by gender and life stage (February 2020, FCA Financial Lives Survey)</u>

The below chart illustrates that reliance on DC pots will also increase over time.



Source: *FLS Feb 2020* **Base:** *All UK adults (2020:16,190)* **Question:** *Pension in accumulation (summary 4)*

Policy background

- *A stronger nudge to guidance and investment pathways should not be the only way in which members are encouraged to consider their options.*
- *Pension schemes should be required to have multiple touch points with savers throughout their savings journey and deliver more comprehensive defaults designed for the needs of future retirees.*

The Government has tried to help people understand the choices available to them. Pension Wise, launched in March 2015, has been providing increasing numbers of people with free, impartial guidance. The recent introduction of a stronger nudge to guidance may help increase the stubbornly low update of this free guidance, and this is something we called for in our 2018 *Hitting the Target* report.

The regulators have also acknowledged the challenges that savers face. Investment pathways are a step in the right direction but are not the full and complete answer to the range of issues that savers face at retirement. Investment pathways are effective in that they address some of the detriment arising from the purchase of drawdown without advice – such as inadvertently defaulting into a cash or cash-like investment. This was arguably a big risk to the retirees of the past. However, we believe industry should be more ambitious than the investment pathways – going further to deliver a comprehensive retirement journey, more appropriate solutions for the trust-based sector, but also better catering to the myriad and changing situations and needs of savers into the future.

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 the future?**

While savers have access to a wide range of separate retirement products, notably in the form of cash accounts, investment drawdown products and annuities, they rarely have access to simple blended solutions that combine the most beneficial elements of these separate products in a way that better meets their income needs throughout retirement.

Many recent retirees have, until recently, had relatively small DC pension pots alongside other pension entitlements or sources of retirement income. These individuals are unlikely to have suffered significant harm from not purchasing multiple products or one blended solution. However, an already significant minority of savers have large pots[22] and will need blended solutions to achieve the best outcomes. FCA data shows that of the approximate 650,000 pots accessed in the year 2019/20:

- 150,000 pots (or 23%) were between £30k and £100k,
  - Of which almost 50,000 people (or 30%) received no advice or guidance
- A further 80,000 (12%) were more than £100k.
  - Of which around 12,000 (or 16%) received no advice or guidance.[23]

Moreover, the size of the average pot is growing rapidly, and so within the next decade, it is likely that the majority of those reaching state pension age will need blended solutions.

The range of products currently available is limited

The following simplified illustration maps the product features that savers value against the features that products currently offer, and clearly shows that individual products are highly unlikely to meet all savers needs now and in the future.

SIX YEARS AFTER THE INTRODUCTION OF THE PENSION FREEDOMS

Product features / Product type	Income for life/Longevity protection	Flexible access	Minimises later life Decisions	AVAILABLE for REMAINING family	Inflatiion protection	Simplicity	other 'appeal' factors
Annuity	✓		✓	Sometimes	Sometimes		
Drawdown		✓		✓			
Cash lump sum		✓		✓		✓	✓
Taking the whole pot as cash		✓		✓			
AFTER THE INTRODUCTION OF GUIDED RETIREMENT INCOME CHOICES							
Blended solution	✓	✓	✓	✓	✓	✓	✓

[22] 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)

[23] https://www.fca.org.uk/data/retirement-income-market-data

We believe that the ideal solution for most savers with a sufficiently large pot will be a blended product of cash, drawdown and an annuity, and though the individual products are found the blended solutions are rarely available at present.

During our DC Decumulation *Call for Evidence* the majority of stakeholders agreed with the following as key risks for savers:

- Longevity: The risk of running out of money due to living longer than expected. Savers find it difficult to take decisions which enable them to make their money last throughout their retirement.
- Inflation: Assets are de-risked in the lead up to and in retirement and this means returns are less likely to outpace inflationary effects, which exposes savers to the risk that their spending power will erode in the lead up to and over the course of retirement.
- Investment: Market downturns have a profound impact on savers wealth, particularly in decumulation if unsuitable investment strategies are selected.
  - Sequencing: The timing of withdrawals in the context of wider financial markets risk damaging a saver's outcomes. This is especially relevant where savers remain invested during retirement (for example, in a drawdown product).

Savers often don't have access to the products they need from the providers they trust.

- Traditional retirement journeys are disappearing but the emerging innovative products and solutions need support to flourish and meet these changing needs.[24] Savers also need ways to more easily blend and hybridise products to suit their needs.
- Products need to be flexible enough to accommodate the plethora of situations faced by the over 55s.[25]

Savers rarely combine products by themselves

Many savers currently appear to disproportionality value immediate and easy access to their pension; current observed saver behaviours appear to some to be 'illogical and irrational' but this is in part because savers suffer from behavioural biases which:

- Prevent them from thinking about their later years,
- Cause them to struggle with numbers and percentages,
- Lack knowledge of investments, and
- Misunderstand or do not know the risks they face.[26]

Expectations and assumptions are made and remade throughout different phases of retirement and some of the risks that savers face are very difficult for savers to manage unless reasonable and accurate assumptions are made. However, research suggests that upwards of 60% of people are currently retiring with no plans[27]. The nature of risk at an individual level also changes during different phases of retirement. Cognitive decline worsens with age, which means that delaying decision making increases the risk that individuals take poor choices or become victims of scams.

[24] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf
[25] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf
[26] ibid
[27] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf

Combining flexibility in earlier years of retirement with security in later years, and securing longer term needs in advance in simple blended products is likely to help balance savers' shifting needs across their retirement as well as protecting them from taking decisions later in life when they are less able to do so.

These factors combine and naturally lead to similar conclusions to those that inspired automatic enrolment in the first place; people deserve good quality defaults on the way 'out' just as much as they do on the way 'in' to saving. This is why we have proposed Guided Retirement Income Choices.

Needs will change in the future, and these needs should be met

The scale of this problem will only increase as more and more savers will be dependent on DC saving alone for their retirement income. Savers want products that help balance the long and short term needs – they are aware that 'bad' products can lead to 'bad' outcomes, but are often rendered inert by their confusion and fear. The median pot size at state pension age is currently £30,000, but will rise to £67,000 by 2039[28]. A bad decision at retirement could lose a saver years of their pension saving, and this they can ill afford.

PLSA's Guided Retirement Income Choices

Our recommendations would create a new statutory obligation on schemes to support their members at retirement with their decumulation decisions. It is worth noting that under our framework while all captured schemes have the obligation to provide support, none are forced to provide the income choices in-house. For example, smaller schemes could choose to simply sign-post to appropriate products or solutions provided by others where they meet minimum standards.

There are three key elements in the proposal:
- Member engagement and communications
- Providing or sign-posting to suitable products (likely to be blended)
- Governance standards for the design or selection of the products.

The key objectives of the proposal are:

- To provide more **suppor**t to savers who do not engage with their options (learning lessons from the success of AE and the limitations of the OMO) and mitigate or **help manage some of the risks savers face**.
- To support **freedom and choice** for those savers who do engage.
- To positively influence and facilitate **future product development** in the interest of savers, particularly with a view to manage the risks for savers as dependency on DC derived incomes increases and DC pots grow.
- To utilise both **the benefits of scale and governance strengths** of the trust-based fiduciary duty and Independent Governance Committee responsibilities.

[28] PPI (2020)

- To support **similar saver experience** across the market, whilst enabling innovation to flourish.
- To **mitigate some of the key risks schemes are facing** in delivering better decumulation solutions, such as litigation, financial and operational risks.

For those that do not engage at all we believe a minimum reasonable protection is an appropriate default investment strategy (with an opt out model) if an individual does not take an active choice at retirement. This should automatically bridge the gap between accumulation and decumulation – particularly for those that have not been engaged throughout their automatic enrolment journey.

Additionally, schemes should be required to offer support to their members in respect of their at-retirement and decumulation decisions and options. Schemes are already helping to facilitate and influence future product development, with a view to managing the risks for savers as DC pots grow and dependency on DC derived incomes increases. However they have not been introduced widely or swiftly, at least in part due to the barriers face as we set out in response to Question 3.

Since the introduction of the pension freedoms many schemes have started to develop their own solutions.[29] PLSA research identifies that not only are the options available to members evolving, but the choice architecture is also improving in various ways.[30] However, we do not believe that these solutions will be optimised or become universal unless our proposals for Guided Retirement Income Choices are adopted.

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

When developing our decumulation recommendations last year we had extensive conversations with industry about the kinds of emerging product and solution innovation, including in other jurisdictions.

Some of the key findings from other countries are the following:

- Individuals around the world often use their DC savings to buy more than one product[31].
- Even where a greater range of products and solutions are available research routinely finds that savers continue to ask for more help with their retirement choices from their employers and schemes[32].
- Understanding of pensions is lowest in the UK (46%) when compared with Australia (56%) and the USA (69%)[33]

We heard examples of compelling blended solutions – like those we believe will be needed in the UK - which help savers achieve more sustainable outcomes throughout retirement (for example

[29] For example, see Nest Blueprint (2015)
[30] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/The-Evolution-of-Drawdown-2020.pdf?ver=s4DCXmWsq3YpxzE6Uoi_1Q%3d%3d
[31] https://www.oxera.com/wp-content/uploads/2018/07/Retirement-income-market-1.pdf-1.pdf
[32] For example, in the United States 63% want more help from their employer https://wealthtrack.com/wp-content/uploads/2019/01/2018_Retirement_Study_Look_Book.pdf
[33] *The Future of Global Retirement*, Smart Pensions (2021)

deferred annuities, guaranteed drawdown products, Collective Defined Contribution, robo-advice and individual mortality underwriting). Some of these – such as deferred annuities, notably 'QLACs' in the US, have been proven to have led to a significant reduction in the likelihood that retirees suffer from financial hardship later in their life[34]. QLACs are a deferred fixed income annuity purchased with a capped proportion of total saving. They come with a variety of features but that are exempt from distributing until age 85. Members are unable to break their QLAC contracts and spousal consent is necessary and so they cannot be utilised as a 'default' option alongside an investment, which is proposed by some in the US.

Blended solutions such as these are a 'middle ground' between other more binary options and are superior to merely 'tagging on' new product features to existing products to deliver specific advantages (such as adding inflation protection, the ability to delay initial payments or additional access to capital withdrawals).

Research suggests savers want their scheme to help provide them with solutions that are either 'do it for me/do it with me'.[35] Savers in the UK are also less knowledgeable that those in other jurisdictions, suggesting that they need more comprehensive support than we see elsewhere. See our response to Q. 4 for more information.

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

We have found significant barriers to providing suitable decumulation options that better deliver appropriate retirement income choices.

These barriers are that:

- Savers are not in a position to assess which options are best for them
- Schemes are deterred from offering the right solutions

Savers face numerous barriers

We believe that the successes of automatic enrolment risks being undermined by the current incarnation of the pension freedoms if left uncorrected. We found that currently savers aren't well equipped to take the decisions that would be in their best interests – and this is exacerbated where people are unable or unwilling to seek advice. The available evidence regarding saver behaviour suggests that people are not seeking to balance their short- and long-term needs in their decumulation decisions. Due to the complexity of the decision and the lack of support and guidance to savers there is little demand to the best products and solutions. Instead it appears savers are favouring immediate access to cash over long-term security. Research has repeatedly found that savers are accessing their pension pot in order to access their tax free lump sum. Drawdown is perceived by some simply as a by-product of accessing tax free cash and people had given little thought to their remaining pension savings[36] and access to a pension pot in the first place is purely driven by a desire to access their tax free lump sum.[37]

[34] See, for example, Wells Fargo Asset Management research.
[35] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf

During our DC Decumulation *Call for Evidence* the majority of stakeholders agreed with the following as key barriers and decision risks for savers (in addition to those illustrated above in answer to Q. 1):

As a feature of the market

- Lack of purchasing power: Savers currently act individually in the market, sometimes making choices with very small pots of money, whereas if their scheme were collectively bargaining on their behalf – for example for a default blended product - they would likely pay less and have access to better quality products.
- Information asymmetries and principal-agent problems: Where savers have much less information than their product providers and risks are compounded where their interests are not aligned. It is a recurring source of concern in financial services generally, especially where agents (providers) end up acting in ways that are contrary to the best interests of the principal (savers).

As a feature of the need to purchase or select a product or solution

- Decision: The complexity of decumulation decisions often result in savers 'choosing not to choose' or taking the path of least resistance, which can have significant negative consequences for the sustainability of retirement saving.
- Scams/fraud: The risks are likely to be very high, especially where individuals' level of knowledge is low as scammers will spot an opportunity to exploit inexperience or confusion.
- Financial planning: Where either savers don't see the value of financial advice and therefore don't access it, or where other assets are not considered holistically.

We have therefore consistently found that the demand side is currently too weak to influence the development of products that are in the best interests of the future needs of savers.

Schemes also currently face barriers to offering enhanced decumulation solutions

Our evidence suggests that pension schemes are keen to find ways to enhance or develop their approach to decumulation but are deterred from developing solutions due to the following risks:

- Litigation: These can arise for schemes in providing additional support, including where they look to support savers by signposting them to solutions.[38]
- Information: Schemes struggle to understand individual savers' needs, and this can cause additional cost and complexity to deliver support and appropriate products.
- Regulatory risk, particularly on the advice/guidance boundary: Issues relating to schemes potentially breaching various requirements if they provide more than the required minimum decumulation provision.

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[36] TPP & SSGA, New Choices (2016)

[37] LGIM NMG Research (2020)

[38] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf

- Marketing: Schemes must grapple with European level directives such as the Privacy and Electronic Communications Regulations (PECR) and General Data Protection Regulations (GDPR).
- Financial and operational: New solutions cost schemes money and, in the context of ever increasing burdens to comply with regulation, voluntarily delivering additional due diligence and governance processes that go beyond the minimum requirements are unlikely to be plausible.

Without a statutory obligation to support members with their retirement decisions schemes find it hard to demonstrate that their solutions meet a consistent minimum standard of appropriate governance and design. By providing more structure we believe we can enable pension schemes to influence the product supply side and cost of retirement solutions by developing new products in-house or stimulating the development of new third-party products.

Small average pot sizes and fragmented saving across multiple small pots complicate saver decision making; decisions are much more likely to be taken on a pot by pot basis rather than considering the total saving and consolidation remains complex for savers to manage themselves. At smaller pot sizes more people take their full pot as cash. Evidence from one large provider finds that 96% of pots of less than £30k are currently taken as cash[39].

Our decumulation recommendations are designed to overcome the barriers to both members getting what they need and schemes delivering this. Evidence suggests that savers are also keen that their providers or 'the experts' to continue to take responsibility for their investments after retirement when they couldn't recall ever making any choices for the money in their DC pension pots.[40]

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

Many people struggle to access the guidance and advice they need to make informed decisions about how to access their pension. The Money and Pensions Service (MaPS) listening document identified that 22 million people in the UK didn't know or understand enough to plan for their retirement[41]. We support initiatives that explore measures which could increase the number of people that access guidance.

However, it is incorrect to assume that all of those who either have already or will access their pot without advice are necessarily suffering detriment or that they therefore need protection. For example, a proportion of people which are of concern to many as they take their pot in full without advice may be doing so because they have other sources of income. But this situation should not be left to chance in the future. Over the next ten years an increasing number of savers will come to rely

[39] LGIM, September 2019-2020 data, representing 14,000 schemes or more than 4 million members.
[40] https://www.lgim.com/landg-assets/lgim/_old-document-library/solutions/four-pots-for-your-retirement.pdf
[41] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf

on their DC pot alone; in those circumstances taking an uninformed choice risks writing off years of irrecoverable hard saving.

Savers need support to make informed choices about retirement

Evidence provided to us while we were developing Guided Retirement Income Choices showed that more than a quarter of those who tried to access their pension didn't go through with it because they were confused about the options.

Research finds that the need for advice and guidance changes throughout the course of retirement – as people's cognitive abilities are impaired people often increasingly struggle to understand financial concepts (such as charges and fees, or inflation)[42].

In summary, savers need advice, guidance and support that meet the following needs:

- Explain and support in managing all the risks they face (as identified in answer to Q 1 above),
- Give simple and straightforward indications of what action to take,
- Be affordable, and
- Potentially provide one off and/or ongoing support as circumstances or needs change.

Current access to advice and guidance is low

People are generally not receiving the advice and guidance they need to better equip themselves. Only 32% of people received support in the last 12 months:

- 8% regulated advice
- 20% more formal guidance, and
- 4% information guidance only[43].

Some savers are put off seeking advice as they feel that they simply needed some one-off support from an 'expert' to help them with basic planning and investment choices[44]. Others seek multiple sources of 'help' but do not think of this – or seek - either formal 'advice' or 'guidance' in a regulated sense.[45] They are either unwilling to pay an ongoing fee for the adviser to continue looking after them and their money or feel that their pot was too small to justify this.[46] And even though guidance is available for free member inertia is likely to result in take up rates being quite low[47].

Cost is not a strong barrier to adults seeking advice, if the price is 'reasonable' – but in general people do not consider independent financial adviser (IFA) fees meet this test. Typical estimates of an IFA's hourly rate ranged from £100-£200 per hour, with the expectation that it would only take

[42] https://www.pensionspolicyinstitute.org.uk/research/research-reports/2019/2019-10-22- supporting-later-life/ and see also, for example, Agarwal, Sumit and Driscoll, John C. and Gabaix, Xavier and Laibson, David I., The Age of Reason: Financial Decisions over the Life-Cycle with Implications for Regulation (October 19, 2009).
[43] FCA Financial Lives (2021)
[44] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf
[45] https://www.fca.org.uk/publication/research/fawg-consumer-explanations-advice-guidance.pdf
[46] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf
[47] ibid

a couple of hours for a financial adviser to deal with their financial affairs, including their pension. Consumers' views on what is 'reasonable' or offers them value for money far underestimate the actual costs of advice, which creates a barrier to take up.[48] Around two thirds of pots accessed in 2019/20 were less than £30k and two fifths were less than £10k; only one in eight pots (13%) accessed were £100k or more.[49] For savers with these small pots the cost of advice is, understandably, likely to be a deterrent.

Savers need better support in the future

Advice, alongside guidance and information from trusted sources, at the right time and taking into account a more holistic view of an individual's finances can be very impactful. Innovations to deliver affordable, simplified advice to the mass market should be supported.

Moreover, members preferences continue to be that they would like their provider to either offer a single plan or adapt a plan offered by their pension provider; less than a third who have accessed their pension and less than a fifth who have not yet retired or not accessed their pension want to build a bespoke plan tailored exactly to their own needs[50].

The first and most influential source of information for decisions on retirement choices are the existing pension scheme provider[51]. Current available evidence suggests that where people were provided with clear information from their provider they were more likely to state that they had a plan about how to make a choice in the future.[52] We therefore believe that more support should be provided to savers by their scheme and providers alongside any other advice and guidance to achieve the best possible outcomes for all, regardless of whether they seek full advice or not.

The UK Financial Wellbeing Strategy[53] set a target of 5 million more people understanding enough to plan for their retirement. Under our Guided Retirement Income Choices proposal savers would receive more support throughout their journey into retirement and this should therefore help to resolve the current 'guidance gap' that will otherwise persist.

Therefore we think overall the future decumulation market needs to combine the following components:

- Continue efforts to signpost savers to MaPS - MoneyHelper for general information about pensions,
- Support from schemes in the form of Guided Retirement Income Choices,
- Wraparound advice models – providing support in personal finances at low cost throughout the whole of someone's life, including advice on their pension 'from cradle to grave',
- Streamlined advice services[54] including technology-based (automated) solutions[55], and

[48] https://www.fca.org.uk/publication/research/ignition-house-consumer-research-report.pdf
[49] FCA Retirement Market Data, 2020
[50] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf
[51] https://consumerinsight.which.co.uk/articles/pension-decumulation-feb2017
[52] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf
[53] https://www.moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing/
[54] As defined by the FCA Guidance https://www.fca.org.uk/publication/finalised-guidance/fg-17-08.pdf
[55] https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/lu-future-automated-financial-advice-uk-

- Innovative, mass market solutions to provide support, guidance and enhanced guidance – some of which should be provided by MaPS - MoneyHelper. (see our response to Q. 5)

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

We believe that MaPS, now MoneyHelper, should play an essential role in providing impartial, non-commercial, guidance. We believe the new, wider remit of MaPS, compared to its predecessor bodies, provides a great opportunity to adopt a necessary, more holistic approach to retirement saving decisions. MaPS should be looking to develop further their guidance offering to get closer to the real needs of savers, including by approaching the advice/guidance boundary and helping to bridge the advice gap. We also believe that there is substantial potential for MaPS to improve financial capability by working closely with employers and workplace pension schemes. Many larger employers already provide extensive guidance and support services. We also see a greater role for schemes under our recommendations to enhance and reinforce the support available throughout the entire journey.

We also believe that dashboards will help savers identify all their pension pots. We also believe that dashboards will help savers to understand the value of their pensions in terms of an estimated retirement income and help savers to plan for retirement. The creation of a non-commercial 'public good' pensions dashboard and the setting of the governance standards for commercial dashboards should be a major priority for MaPS. However, dashboards as a single channel of communication will not be a panacea for the existing problems with the uptake of information and guidance services. In order to maximise the opportunity of the appearance of dashboards, MaPS should promote other services including one-to-one guidance sessions, helpline and web chat support. This approach will provide savers with the multi-channel approach to information and guidance that is their clear preference.

We support a retirement portal on the MaPS-MoneyHelper website containing:

- The MaPS-MoneyHelper Dashboard,
- Useful tools and information to help people make sense of their pensions information in context, such as the PLSA's Retirement Living Standards give people an understanding of the income they will need based on baskets of goods and services, and
- MaPS-MoneyHelper could offer a web chat service (alongside maintaining its' 'human' services) in the retirement portal as the Money Advice Service and the Pensions Advisory Service both do currently.

The PLSA strongly support MaPS in its role of providing impartial, non-commercial, guidance. MAPS has an essential role to play in increasing trust and financial capability. The number of appointments with Pension Wise have tripled since the launch of the service in 2015, though we still believe that not enough people are accessing the free Pension Wise guidance on offer.

15052017.pdf

MaPS estimate around half people accessing DC pots in 2018-2019 did not receive regulated advice or Pension Wise guidance.[56] MaPS estimates suggest that there are currently more than 75,000 people accessing defined contribution pension pots worth £10,000 or more without regulated advice or guidance, each year.[57] Initiatives such as Stronger Nudge[58] to guidance could prove useful in increasing the numbers of people accessing guidance in this way. We would support more initiatives to increase numbers that are found empirically increase the numbers seek guidance further, such as examining ideas like earlier nudges and automatic appointment services.

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

We would like to see the following:

- Guidance from MaPS-MoneyHelper during the Pension Wise appointment go further so that the Guider can state that, based on the discussion, a particular option best suits a savers' needs.
- Employers and pension schemes empowered to give more guidance by providing greater clarity on the advice/guidance boundary.
  - The advice/guidance boundary may need to be shifted in circumstances if this is necessary to facilitate better outcomes for savers in retirement.
- Initiatives such as *Stronger Nudge to Guidance* which we believe will continue to increase footfall to MaPS-MoneyHelper.
  - Further consideration of earlier nudges and automatic MaPS-MoneyHelper appointments as proposed by some in the industry as a solution to overcome the inertia identified which continues to limit savers' voluntary access to guidance.

We would like MaPS to build on its experience and in-house knowledge of pensions guidance and focus, in particular, in the nearly half of all workplace pension savers who are not on track to achieve an adequate income in retirement[59]. It will also be important for MaPS to focus on the self-employed and women, both of whom have lower pension savings than average.

We believe there is merit in exploring whether the boundaries of advice and guidance could be redefined to allow guidance to go further in helping individuals make a decision when accessing their pension. The experience of our members is that savers are reluctant to make a decision without some form of recommendation or prompt to take a particular course of action. As well as enhanced MaPS delivered guidance, a particular focus should be on measures to help employers and workplace pension schemes engage with employees and on the use of fintech guidance solutions – both of which could help to achieve better outcomes for 'mass market' savers.

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

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[56] T. Shanmugarasa et al, Pension Wise Service Evaluation: Experiences and Outcomes of Customers Using Pension Wise in 2018/19) (2020).

[57] Shanmugarasa et al (2020).

[58] https://www.fca.org.uk/publications/consultation-papers/cp21-11-stronger-nudge-pensions-guidance

[59] Such as PLSA's Retirement Living Standards https://www.retirementlivingstandards.org.uk/

We believe that the success of AE in helping people to save into a pension can be replicated for people accessing their savings. However, we do not think that the investment pathways offer a comprehensive approach to doing this. The investment pathways help savers consider their needs over one to five years and avoid investing in cash or cash-like instruments inadvertently. However, they are not sufficient to assist savers in with the myriad of wider factors they will need to consider during their 20 plus years of retirement. The PLSA therefore continues to put forward recommendations that are more ambitious in scope than investment pathways.

The FCA's investment pathways represent an important first step in improving saver outcomes in the spirit of an automatic drawdown pathway. Their establishment was at least in part prompted by the finding that inertia was resulting in poor outcomes as some providers were 'defaulting' consumers into cash or cash-like assets. Overall 33% of non-advised drawdown consumers were wholly holding cash and so, in particular, the pathways will help those that previous ended up there unintentionally.[60] It may also go some way to help the 100,000 people that enter drawdown without advice every year.

Defaults can be highly helpful for those that don't engage, but successful defaults will need to be much more than investment pathways to provide a comprehensive solution for all. Necessarily they categorise savers into one of four simplified situations, whereas we see the most successful solutions as meeting a complex blend of saver needs. For example, when used alone standard drawdown deals poorly with longevity risks which are one of the major issues for those intending to draw an income over the longer term. Pathways do help savers avoid cash for the next three years, but do not yet deliver the comprehensive, whole of market and blended solutions that are appropriate for the future cohort of retirees.

We support similar saver experiences across the market but also want to support innovation and enable successful products and solutions to flourish. We also believe that the fiduciary duty and relationship to savers within trust-based environments can enable more ambitious solutions designed to meet member needs and with potentially fewer commercial conflicts of interest than those designed under pathways. They will also be shaped by a much higher proportion of automatically enrolled savers.

At this time, schemes and providers tell us that some of the very best solutions for the automatically enrolled don't fit well within the investment pathways framework – for example, those solutions that provide a regular income but also some flexibility for capital withdrawals, or those that combine an annuity purchase later in life with drawdown. Currently for members to access the best solutions they must take active choices to do so – they will not be 'automatically decumulated' into them by investment pathways – and are likely to pay a 'retail' premium when compared with the better value products available to them during accumulation.

By being more ambitious in the scope of defaults in retirement than investment pathways Government can ensure that all savers receive a consistently high quality and value for money experience throughout their retirement journey. While good practice, guidance and voluntary

[60] https://www.fca.org.uk/publication/market-studies/ms16-1-3.pdf

standards could encourage some schemes to act, it is unlikely to create a step change in those schemes who are currently are unwilling or unable to do so, for example due to the regulatory and litigation risks they face. By enhancing and clarifying trustees' obligations some of the most severe risks that savers might otherwise face can be mitigated.

Our Guided Retirement Income Choices seek to build on the investment pathways, the obligation on schemes to provide support at retirement, for the whole of retirement, and could sit alongside the Investment Pathways, which only focus on the next 5 years. We believe our proposals should be adopted across the whole of the industry, so both trust-based occupational pension schemes, Master Trusts and insurers provided contract-based GPPs. It is important that savers benefit from the new regime regardless of which type of provision, or regulatory regime, they operate under.

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

Costs, particularly ongoing costs, are important for savers to comprehend in the context of the overall value that the product or solution is able to offer them. They should therefore be appropriately contextualised so that the saver can understand whether the product is right for them. For example alongside any description of the investment strategy of the default fund or where solutions target a guaranteed income which may be of significant value albeit more expensive.

However, the information that consumers need to make an informed choices about retirement products also includes the following:

- Access to information about their own situation such as their state pension entitlement, sources of wealth, likely budget, and financial commitments,
- Any specific design components of the product or solution that could be of additional benefit such as inflation protection or guaranteed income components,
- Appropriate information about the investment approach and the investment objectives of any product/solution,
- Tax implications of their own decisions, for example and particularly where certain decisions might result in a loss of future tax relief as a result of the money purchase annual allowance, or where certain access options face greater tax charges,
- Tailored information intended to assist the average scheme member wherever possible, and
- Wider decision making and contextual information about how to review and consider retirement options and how to plan for retirement such as inheritance preferences.

In our view Trustees should follow some basic principles of good communication, primarily to provide information and options to savers carefully and clearly, with the objective that they understand the implications of their choices[61]. Savers should be provided with the right information at the right time, starting early and continuing throughout the stages of the journey, including in the run up to key disclosures such as the wake up pack. A longer period of saving is

[61] https://www.pensionqualitymark.org.uk/documents/96_pqm-standards-january-2019-190619.pdf

fundamental to achieve a better outcome at retirement and so savers should not only understand their decisions at retirement, but be encouraged to picture their future from as early on as possible in the journey, such as through awareness of the PLSA Retirement Living Standards[62].

Under our Guided Retirement Income Choices we believe that all information about decumulation options, including products, should be inclusive and appropriate to the schemes membership, use industry standard accessible language and cover matters such as:

- key options savers should consider,
- key information about what the scheme is offering, and;
- examples of how to prepare for decumulation, such as generalised factual information such as how to:
    - set a target retirement date,
    - consolidate pots,
    - appreciate the full implications of any lump sum or drawdown components on long-term retirement income.

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

Pension schemes deliver the best communications that they can within the legal and regulatory constraints that limit their ability to deliver a full and complete customer journey. These differ given different regimes, but the key material difference between the contract- and trust-based pension schemes' communication approaches is that the former is based on disclosures designed to ensure regulatory compliance with FCA rules, whereas trust-based schemes deliver scheme-led governance through trustees with a fiduciary duty to their membership.

By way of example, trust-based regulatory requirements have focused on accumulation communications and basic minimum disclosures. However, many of the best schemes go far beyond these as many of these regulatory disclosures are deemed ineffective by schemes; they believe that by going further they can achieve better outcomes in the interest of their membership.

We see lots of examples of highly effective and diverse communication strategies developed by pension schemes for members, which include elements as varied as:

- Seminars in series to help members engage and understand their options,
- Flow charts, graphics, case studies and other more engaging forms of generic or personalised information illustrating the retirement journey step-by-step,
- Purposefully streamlined and de-duplicated paper communications, which focus on making information simple to digest and is action-oriented,
- Highly interactive webpages and online portals, including member centric communication approaches such as:
    - Retirement income calculators,

[62] https://www.retirementlivingstandards.org.uk/

    - Expectations tools such as projections based on current drawdown behaviour,
    - Budgeting tools that range from simplified topic lists right through to building a complete picture of all savings and investments,
    - Personalised video format statements,
    - Timely and relevant communications by email or push notification prompting actions that need to be taken or documents that should be reviewed, and
    - Engaging apps
- Fully integrated side-by-side guidance, robo-advice and full advice services.

The best schemes already take their communication role at and during retirement seriously, and often work with sponsoring employer HR departments, administrators, partner Master Trusts, advisers, communication specialists and others to optimise their approach in the interest of members. However, schemes experience a constant tension between their fiduciary duty and 'minimum' disclosure requirements. Moreover many regulatory constraints assume more 'traditional' approaches to communication (i.e. letters/ pamphlets) or, where potentially applicable, FCA regulations are designed to protect consumers from the conflicts of interest present where schemes do not have a fiduciary duty to their membership.

Trust-based schemes that are not FCA-regulated experience limitations on what they can currently communicate to their members. When we were developing our Guided Retirement Income Choices some stakeholders called for specific exemptions from activities that would otherwise be considered an FCA-regulated activity – and so force them into FCA regulation - such as a financial promotion, arranging deals in investments or providing regulated advice. Schemes want these exemptions so that they could provide better guidance and prompts to savers and help inform them about retirement options that they are currently unable to do. For example, schemes are often constrained in clearly and directly communicating with members about what might be an appropriate and sustainable level of income each month, or a projection of how long their savings would sustain a certain level of income before their pot ran out.

By contrast, FCA regulated investment pathway providers are also likely to be constrained in that the disclosure requirements related to investment pathway solutions are highly prescriptive and specific leaving very little latitude for providers to innovate.

We support similar saver experiences across the market and so believe that saver communication and engagement journeys should be as consistent as possible regardless of whether they are contract- or trust-based schemes. As savers may well have more than 10 jobs in their working life, and therefore potentially multiple pension pots of different kinds, it is important that savers are not bewildered by an array of slightly different communications before, at and during retirement phases.

Our Guided Retirement Income Choices are designed to remove the risk of the poorest outcomes by giving savers the communications journey they need. By being better informed by behavioural economics, such as deploying a 'path of least resistance', and making the most of 'teachable moments' and enabling schemes to more easily signpost savers to a decumulation solution either inside or outside the scheme that meets their needs.

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

We do not believe that the issue of small pots can be solved purely through behavioural changes by savers. We participated in and agree with the DWP-chaired Small Pots Working Group, which reported that member-led consolidation would be insufficient to resolve the small pots problem. Member-led consolidation can only work if savers are sufficiently engaged and confident enough to make a choice. As discussed earlier in this response this is generally not the case. They will help to solve part of the problem but they are not the whole solution.

The proliferation of small deferred pots can have a number of negative impacts for scheme members and pension providers and is a consequence of the way that automatic enrolment is designed. For example, savers risk having their pots eroded by charges, and they are more likely to lose track of multiple small pots over time. Small pots also present a risk to providers as they introduce cost and inefficiencies into the system. Small pots can be a problem at decumulation as those with small pension pots have a tendency to cash-in a pot rather than use it as a sustainable income. FCA retirement income market data shows that 88% of pots worth £10,000 or less were fully withdrawn compared to 33% of pots wroth between £30,000 and £49,000[63].

In 2021 the DWP predicted that there would be 50m dormant pots by 2050. Small pots pose a particular problem for AE master trusts as they service the part of the market where small pots are more likely to build up – people on short-term contracts who move jobs frequently and lower earners. Therefore, we believe the priority should be to resolve the issue for master trusts as currently the bulk of small pots of situated in those schemes. However, small pots are also an issue in other parts of the market and a longer-term solution will need to work for whole market solution and not only for master trusts.

We do not see one solution working well in isolation; multiple solutions working in tandem are likely to deliver the best outcomes for scheme members. Therefore, a mixture of the below options is likely to offer the overall approach needed to resolve the problem of small pots. This should include a combination of:

- a solution designed to operate in the short-term to reduce the 'stock' of existing small pots (e.g. consolidating returners, member exchange), and
- a solution designed to resolve the 'flow' issue in the longer-term (e.g. a default consolidator, Pot follows member, Pensions Dashboards as an engagement tool – in conjunction with other options).

The Pensions Dashboard will be a helpful tool for savers to see their pots and should lead to some undertaking member-led consolidation. However, additional support to savers will be needed, due

[63] FCA Retirement Income Market Data (2019/20)

to low saver-engagement and required action from individuals to consolidate pots. The benefits of the dashboard for the small pots challenge are powerful in respect of the engagement and keeping track of numerous pots. However, the Dashboard will not stop the creation of small pots.

The PLSA believes that any solution to the small pots issue should incorporate the following objectives:

1. There should be no material detriment to the saver from being (automatically) transferred between DC schemes (including consideration of costs and charges).
2. Transfers should be efficient for schemes (e.g. automated or semi-automated) and simple and quick for scheme members.
3. Transfers should not solely rely on active decisions by savers to take place.
4. The proliferation of small pots should be stopped so that administration and other costs do not rise.
5. Competition issues must be managed appropriately

The industry is keen to engage and work together to resolve this issue. In March, a Small Pots Co-ordination Group was jointly set up by the PLSA and ABI to make progress on recommendations from the DWP chaired Cross Industry Working Group report. The work will focus on administration processes needed to support longer-term consolidation models, including work on data standards and transfer processes. Through this work the industry will seek to identify and remove barriers to small pots consolidation, however, in order to resolve some of these barriers support from DWP, TPR and FCA may be needed.

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