PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DC DECUMULATION: CALL FOR EVIDENCE

July 2020

CONTENTS

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

EXECUTIVE SUMMARY

The pension freedoms marked a radical shift for savers and the market. The Government announcement in 2014 sparked debates ranging from the purpose of pension saving, through to concerns about provision of suitable support and products for consumers. Since that time there have been some developments in the market and by regulators.

However, the PLSA believes more needs to be done to address the risks faced by savers and schemes, and to seek to provide savers with access to well-governed, cost effective retirement solutions that cater for their changing income needs throughout retirement.

This paper therefore sets out our key proposals seeking to achieve this aim, and calls for evidence to inform final recommendations.

The Government's pension freedoms policy, announced in 2014 and implemented in 2015, is intuitively compelling. Enabling greater freedom for scheme members about how they can access their hard-earned pension savings is an attractive policy. However, some five years on, key points of debate have not yet been resolved – and savers and retirees may be losing out.

The PLSA's mission, to help everyone achieve a better income in retirement, has been driving our response to the pension freedoms. In 2018, following consultation with the industry, the PLSA published *Hitting The Target* (HTT). This set out the PLSA's position on a number of pension and lifetime savings policies. Including our widely supported vision for guided at-retirement outcomes, in which pension schemes and providers would play a more prominent role in ensuring that savers achieve good retirement outcomes.

We are now calling for evidence in respect of our further developed proposals, which seek to operationalise the vision set out in HTT.

These proposals seek to address key risks to savers and schemes – taking into account the available evidence about how savers are using the pension freedoms, incorporating learnings from their behaviours. Our proposed approach also takes account how the retirement sector has changed in the wake of the 2014 reforms – including regulatory changes, such as the FCA's 'investment pathways', and developments in the trust-based sector. As with our initial proposals – our intent is focused on supporting savers in accessing pension savings to provide for the purpose for which they were designed – for income in retirement (and not, for example, for funding of social care).

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

The key objectives our proposal seeks to achieve are to:

- Provide more support to savers who do not engage with their options - utilising the lesson from automatic enrolment (AE) and Open Market Option (OMO) – as well as supporting freedom and choice for those who do
- Enable and seek to shape future product development towards better managing risks for savers as DC pots grow, and dependency on DC derived incomes increase
- Utilise the benefits of scale operations and the mechanisms such as the trust based fiduciary duty and also IGCs responsibilities to the benefit of member and to influence the supply side
- Support a base-line and equivalent or similar saver experience across the market – while enabling innovation and best in class to flourish
- Mitigate or help manage some of the savers' risks
- Mitigate some of the key risks schemes are facing – including litigation, financial and operational risks.

We see our vision as applying across the pension landscape. The current gaps in regulatory requirements for the trust-based sector have drawn our attention to the detail of how it would work in that part of the landscape most immediately, but the intent is to apply this more broadly over time.

Section 1 outlines the broader pensions landscape into which the pension freedoms were introduced and now operate. We set out how the changes and evolving nature of pension provision has informed our solution.

Section 2 considers the risks the pension freedoms expose savers to, and savers behaviour in response to the freedom and choice.

Section 3 considers the risks that schemes face when supporting members in their at-retirement decisions, and examines how the retirement market has evolved to the freedoms in the context of these. It also explores the different aspects of contract and trust based law and associated regulatory regimes that govern the market, which have also impacted developments.

Section 4 outlines our proposals for implementing the solution proposed in HTT. In summary, the PLSA recommends that:

THE GOVERNMENT AND REGULATORS SHOULD INTRODUCE A NEW REGULATORY REGIME. THIS NEW REGIME SHOULD REQUIRE:

I. The creation of a new statutory obligation requiring schemes to support their members in respect of decumulation decisions

II. This support should consist of three specific elements:

   a. Member engagement & communications;

   b. Decumulation products (provision of or signposting to); and

   c. Scheme /governance processes relating to design and/or selection and ongoing delivery of the two above elements

III. A set of standards should apply to each element

IV. Guidance to support schemes to deliver the three key elements and work within the standards.

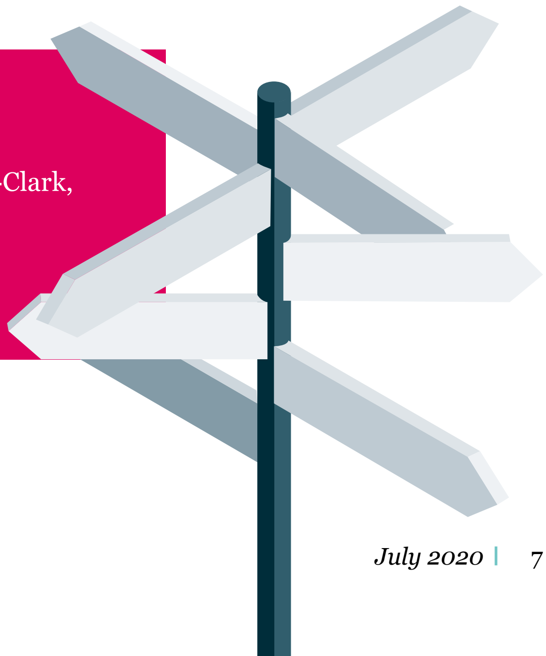
Section 4 provides more detail on this recommendation, including some details on the minimum standards.

Our conclusions are set out at the end of this document, along with a summary of the questions posed.

With the publication of this document, we are seeking evidence that will help us to develop further our understanding of the needs of savers and schemes, and refine the proposed framework set out below. We welcome responses from stakeholders across the retirement savings sector – including savers, consumer representative bodies, providers, schemes, advisers and other pension professionals.

HOW TO RESPOND TO THIS CALL FOR EVIDENCE

Please send your responses to Alyshia Harrington-Clark, Policy Lead: Defined Contribution (**Alyshia.Harrington-Clark@plsa.co.uk**) by close of business on 4 September 2020.



SECTION 1: BACKGROUND & CONTEXT – THE BROADER REGULATORY AND MARKET LANDSCAPE

SUMMARY

The pension freedoms were launched into a pension landscape that was, and still is, undergoing dramatic change. This broader landscape is key to understanding the risks, opportunities, and reactions to the pension freedoms.

- The pension freedoms have introduced a wider range of options for savers to engage with and decide between. This contrasts with Automatic Enrolment, which reduces the choices savers are required to make by maximising the benefits of inertia. This approach also contrasts with the evidence of savers' engagement with the open market option, which was minimal. The introduction of Pension Wise has been welcome – but access to, and engagement by savers with, guidance and advice is still a challenge. Our solution seeks to address the question of support While recognising the issue of inertia
- Automatic Enrolment has expanded the number of people saving for retirement significantly and DB members have continued to fall as defined contribution pots have grown. Our solution needs to speak to this growing cohort of savers, who will be more dependent on DC savings and enable continued evolution and ambition for product development as pots grow.
- At the same time, new forms of pension provision, particularly master trusts, have come on stream and single employer occupational trusts have declined in number. Substantial consolidation has taken place in the DC sector and evidence suggests that this is likely to continue. Since the pension freedoms, regulation has developed in many ways, including the authorisation of master trusts, the development of FCA investment pathways, and we are shortly to see potentially new forms of CDC and the delivery of the Pensions Dashboard. Our solution seeks to be appropriate across the markets and scheme types, harness the opportunities of large scale operations, While also not creating radically different experience for consumers across different parts of the landscape

Our proposed new approach to decumulation harnesses and develops the opportunities inherent in the emerging landscape, creating a solution that provides for better outcomes for savers entering decumulation in the short- and long-term.

This section sets out the changes to retirement options introduced by the pension freedoms and places this in the context of the evolving nature of pension provision which has informed our solution.

INTRODUCTION

There are a number of key overarching trends and trajectories in the pensions landscape that are important context for how the pension freedoms are operating now, and what we think the next wave of evolution could look like.

The long-term savings environment has been transformed over the course of the last decade. The introduction of Automatic Enrolment has enabled more than 10 million people to start saving for retirement or to save more than they were previously[1]. This has revolutionised the way people accumulate pension savings and given greater retirement security to many.

The success of this policy has been built on learnings from behavioural economics research that illustrates the power of nudge and default approaches to long-term saving[2].

In addition the consequences of the policy and its success has included the development of new vehicles and new regulations, which have contributed to consolidation of the market.

The nature and patterns of retirement also continue to develop, and economic shocks, such as that resulting from the Covid-19 pandemic, are likely to see further changes in the foreseeable future.

This section sets out the changes to retirement options introduced by the pension freedoms and places this in the context of the ongoing evolution of pension provision.

PENSION FREEDOMS – THE KEY LEGISLATIVE CHANGE

The pension freedoms revolutionised what people were permitted to do with their pension savings at retirement. In the 2014 Budget, the Coalition Government announced that these reforms would give people “greater freedom over how they access their pension savings” from 6 April 2015[3].

Previously, apart from under specific circumstances[4], people were required to purchase a lifetime annuity, with the option to access to 25% of the pot as tax free cash. Drawdown and flexible income products were seen as a specialist area, often requiring financial advice and restricted to people with higher pot values, likely a consequence of the minimum income requirement. The changes to the tax rules removed the barriers, and since that change, savers have been able to use or access their savings in several ways[5], namely:

i. Leaving the pension pot untouched
ii. Purchasing an annuity
iii. Getting an adjustable income (Flexi-Access Drawdown)
iv. Taking cash in chunks (Uncrystallised Funds Pension Lump Sum)
v. Cashing in the whole pot in one go
vi. Mixing two or more of the above options.

1. TPR, Automatic Enrolment: Commentary and Analysis: April 2018-March 2019 (2019).
2. This is best illustrated in Thaler & Sunstein, *Nudge: Improving Decisions about Health, Wealth, and Happiness* (2008), which offers compelling evidence regarding the power of default techniques to improve the participation in and adequacy of long-term savings.
3. Budget 2014
4. Including a minimum income requirement [PLSEASE CHECK AND REFRENCE]
5. Provided they have reached the required minimum pension age (currently 55)

SAVER SUPPORT AND ENGAGEMENT

With Freedom and Choice the need for saver engagement shifts up a gear. The dynamics in terms of responsibilities, risks, decision making and the need for information all take on a new dimension.

Three major elements of the policy and legislative landscape - Automatic Enrolment, the Open Market Option, and Advice and Guidance – provide key context, learnings and challenges to pension freedoms.

AUTOMATIC ENROLMENT

The Pensions Commission (2005) provided a decisive change in the direction of policy making in respect of engaging people in pension saving. In applying learning from behavioural economics and utilising the power of inertia, the resulting Automatic enrolment programme has achieved widespread pension savings, essential for income security for the benefit of savers.

This followed previous unsuccessful attempts, including the Informed Choice Programme which were based on encouraging people to take action in respect of the retirement income, by the provision of information and support. The success of Automatic Enrolment has been due to the default mechanism.

OPEN MARKET OPTION

In terms of engagement at retirement – in the years immediately preceding the pension freedoms, industry and government activity was seeking to get people to engage with their Open Market Option (OMO) – that is, to shop around to get the best deal for this annuity purchase. This was dubbed the 'default OMO' – trying to find a way of moving the saver to shop around.

Statistics at the time indicated that only two thirds of people were shopping around with only one third purchasing from an alternative provider. Others defaulted into what their current provider had offered. This suggested people were also not considering what type of annuity was best for their circumstances, or what other options they had.

A small uplift was achieved following work of the DWP OMO Review Industry Working Group - measures included agreement across the sector for a clearer three step journey for consumers to be reflected in literature ranging from MAS guidance to schemes wake up packs. In addition, the ABI issued a Code of Conduct, (and the PLSA set to work on developing an annuity panel initiative). However the pension freedoms were then announced leading to an urgent need to focus on delivering the new regime.

ADVICE AND GUIDANCE

To help people understand the choices available to them under the pension freedoms, the Government launched the Pension Wise service in March 2015. This made available free, impartial guidance for people considering their retirement options. Data suggests that the number of individuals using Pension Wise is increasing. In 2018-2019 the service provided 167,000 interactions overall, including 130,000 face-to-face or telephone appointments (compared with 87,000 in 2017-2018). This represents a 49 per cent increase year on year[6].

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

The FCA's *Call For Input* on the financial advice market [7] recognised the changes the pension freedoms had made to pension planning, emphasising the greater responsibility they place on individuals to make decisions about how they access their pensions in retirement.

One of the principal themes of stakeholder feedback the FCA received was the access to advice services. A number of stakeholders stated that not all consumers have appropriate access to a wide range of services to help them in their financial planning, particularly those with smaller amounts of money to invest. Feedback suggests this issue has worsened in recent years[8].

FCA data[9] suggest there were roughly 300,000 to 400,000 people accessing a defined contribution pension pot in 2018-2019[10]. The Money and Pensions Service (MaPS) estimates that around half of these pots did not receive any regulated advice or Pension Wise guidance, and around half of those were valued at less than £10,000[11]. MaPS estimates also suggest that there are currently around 75,000 to 100,000 people accessing defined contribution pension pots worth £10,000 or more, without regulated advice or guidance, each year[12].

Our proposed solution seeks to learn lessons from these approaches in order to provide a more comprehensive solution to supporting savers through and beyond the at retirement process.

GROWTH OF DC & MARKET CONSOLIDATION

Legislative and regulatory changes – including Automatic Enrolment, DB funding regimes, and Master Trust Authorisation - and the economic environment have all stimulated changes to the trends in retirement savings, and also to the market structure. These changes are continuing to develop today and will have long-term consequences.

GROWTH OF DC

A key consequence of these influences is the increasing number of people who are accruing DC pension savings for the first time or saving more for retirement than they were previously. This is increasing the size of DC pension pots, which will continue to grow as the Automatic Enrolment generation ages. At the same time, the incidence of DB entitlement has dropped dramatically over the last decade and will continue to do so in future[13].

7. FCA, Evaluation of the Retail Distribution Review and the Financial Advice Market Review: Call For Input (2019).
8. FCA, January 2020 Update (accessed 11/06/20).
9. Shanmugarasa et al (2020).
10. This is sourced from FCA retirement income market data 2018/19 and based on MaPS calculations that assume an average of 1.5 to 2 pension pots per person accessing a DC pension. See: https://www.fca.org.uk/data/retirement-income-market-data (accessed 11/06/20).
11. Shanmugarasa et al (2020).
12. Shanmugarasa et al (2020).
13. This has been accelerated by the increasing incidence of DB to DC transfers, which is expected to continue for the foreseeable future.

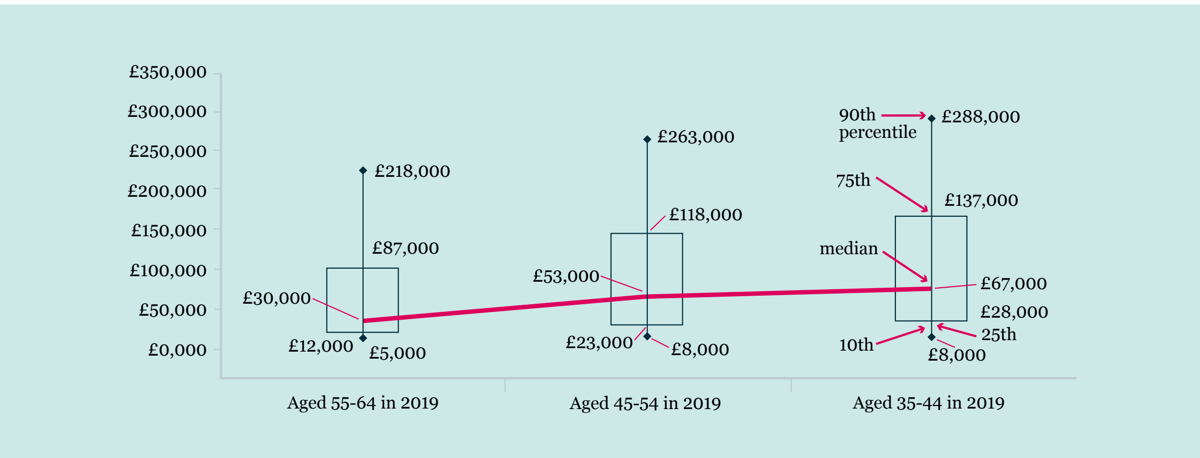
WORKPLACE PENSIONS MEMBERSHIP[14]

	2019	2039
Existing DC schemes	3.1m	1.7m
New DC schemes post AE	2.0m	2.5m
Master trusts	8.1m	10.0m
Total DC	13.3m	14.2m

As the market continues to shift towards DC pension provision, average DC pension pot sizes are set to increase due to the ongoing impact of Automatic Enrolment. PPI research (see graph below) suggests that the median DC pension pot size at State Pension age could grow over the next 20 years from around £30,000 in 2019, (for those aged 55 to 64 in 2019) to around £67,000 in 2039 (for those aged 35 to 44 in 2019)[15]. This is a significant increase in pot sizes that will make more sophisticated approaches to retirement income provision possible in future.

MEDIAN DC PENSION POTS AT STATE PENSION AGE COULD GROW FROM AROUND £30,000 TODAY TO AROUND £67,000 OVER 20 YEARS

Distribution of pension pot sizes at State Pension age for different cohorts (2019 earnings terms)



14. PPI, The DC Future Book (2019).
15. PPI, The DC Future Book (2019).

As pot sizes increase over time, it will become more feasible, economically, for scheme members to utilise retirement income strategies that allocate capital to products that cater for different stages of the retirement journey.

However, the viability of such solutions could be adversely affected if savers' pension holdings are distributed across multiple small pots at the point of retirement. This could be the result of careers characterised by multiple jobs, with recent evidence suggesting that people will have an average of 11 jobs over the course of their career.

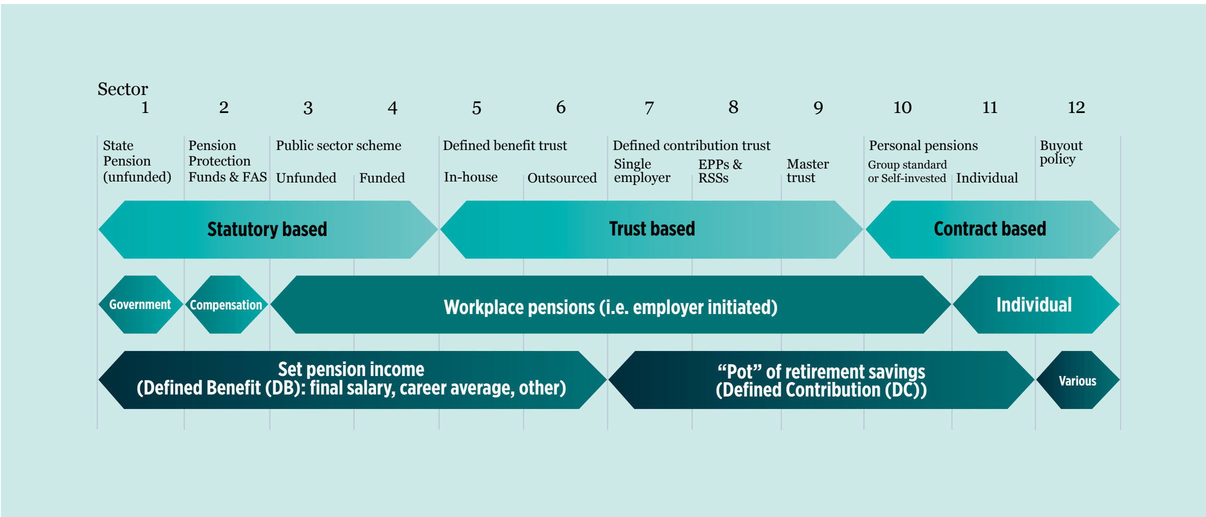
The PLSA continues to work with schemes to develop solutions to the small pots problems for savers schemes, but another development in the landscape will also assist in this issue at retirement – the Pension Dashboard. The Dashboard will provide pension savers with an overview of all of their pension savings in one place – helping to provide key information on a consistent basis that will help savers consider their options more easily.

MARKET CHANGES AND CONSOLIDATION

At the same time, the structure of the pensions sector will continue to change significantly (as it has done since the introduction of Automatic Enrolment) – particularly in the DC sector.

We still expect that there will be healthy growth across the trust-based and the GPP parts of the industry in terms of how the automatic enrolment market is serviced. In its recent publications, the Pensions Dashboard Programme divided the landscape into twelve subsectors.

UK PENSIONS PROVISION SUB-SECTORS[16]

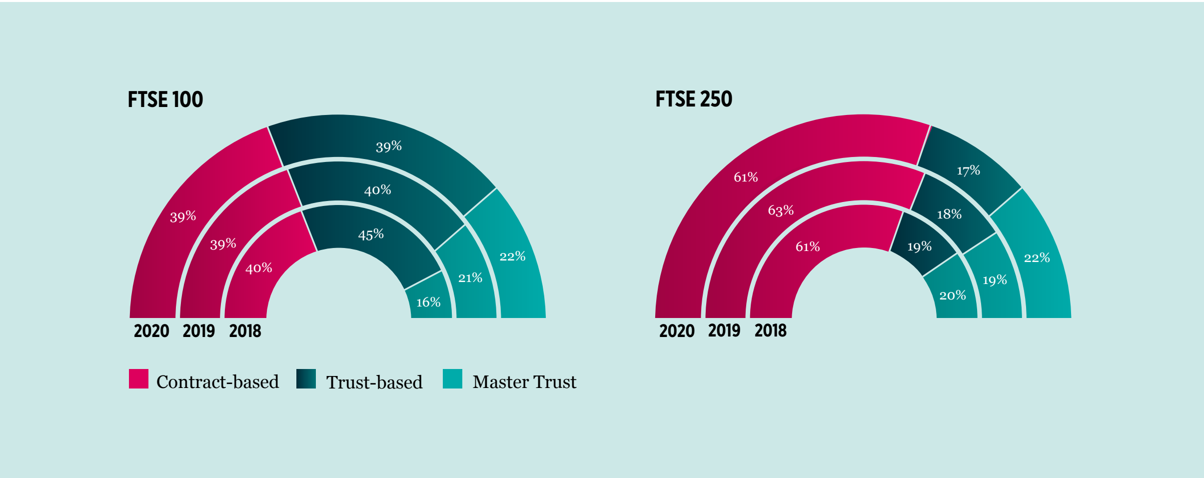


16. MaPS, Pensions Dashboards Data Scope: Working Paper (2020).

In terms of current trends and trajectories - the significant growth of the Master Trust market has been a direct response to Automatic Enrolment requirements, and its subsequent consolidation as a consequence of the Master Trust Authorisation process. At present, there are 38 authorised master trusts in the UK[17]. Of the 90 entities that existed in the pre-authorisation market, 37 – representing 16.6 million savers and £38.5 billion in assets – made it through the initial authorisation window[18]. Subsequent to this, one further Master Trust was also approved (December 2019).

The rise of master trusts has been accompanied by significant consolidation in the occupational DC market (either in practice or in reality), as employers are increasingly entering fully bundled arrangements with master trusts or providers, or undertaking a bulk transfer.

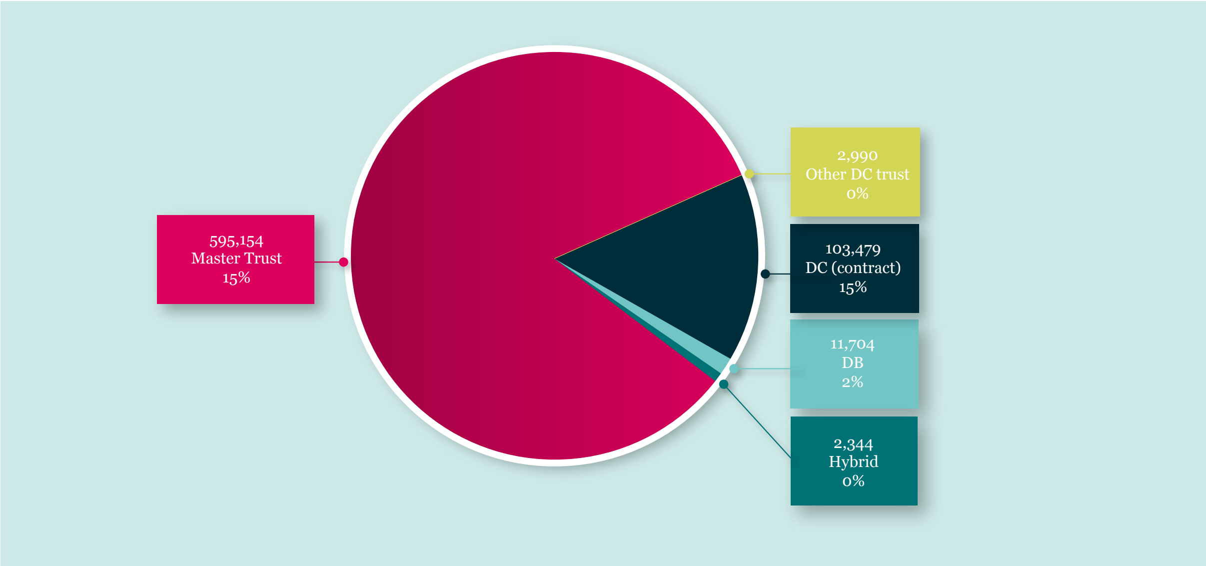
CHANGING FTSE 350 DC PENSION PROVISION[19]



Perhaps most significantly, most employees who have been automatically enrolled are in some form of Master Trust arrangement. These are the employees that are likely to be least well-placed to engage with retirement options (as their entire pensions accumulation journey will have been based on inertia). For some automatic enrolment master trusts, engagement of the employer can also be quite low.

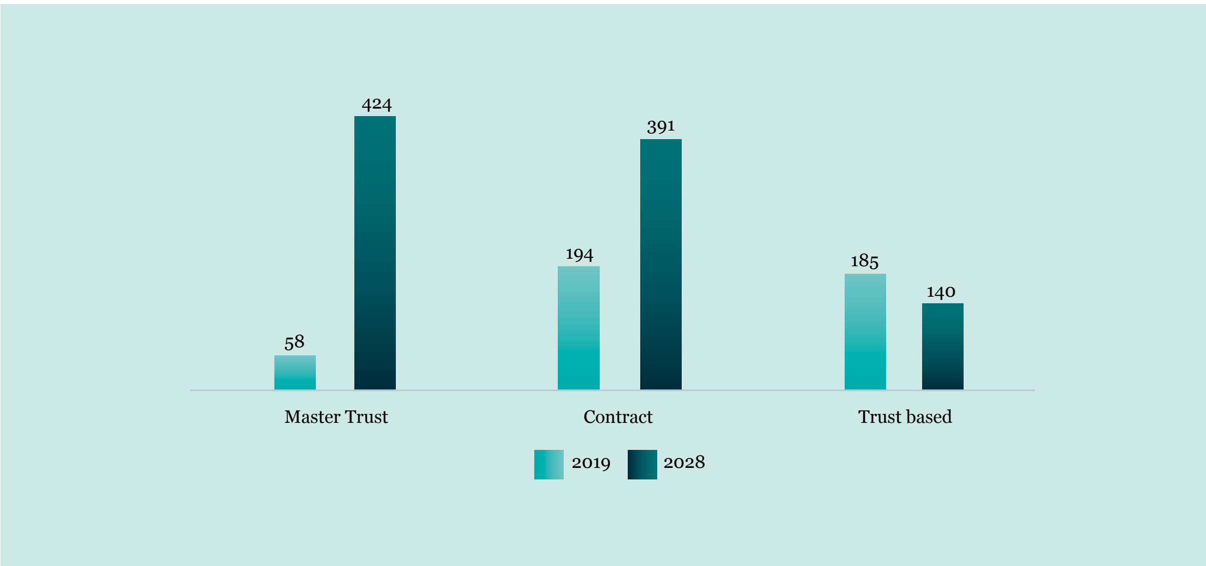
17. TPR's list of authorised master trusts.
18. TPR scheme return data 2019-20, February 2020
19. WTW, FTSE 350 DC Pension Scheme Survey (2020) .

NUMBER OF EMPLOYERS WHO HAVE AUTOMATICALLY ENROLLED THEIR EMPLOYEES INTO DC SCHEMES, BY SCHEME TYPE.



Forecasts suggest that master trust and GPP assets under management (AUM) will continue to grow strongly over the course of this decade (see below), with master trust AUM growing particularly strongly.

GROWTH IN ASSETS BY MARKET SEGMENT £BN, 2019-2028



Source: Broadridge analysis

The changes in the composition of the market have created new opportunities for master trusts and GPPs to offer cost-effective, off-the-shelf, institutionally-governed retirement strategies at scale that are suited to the needs of the savers they serve.

THE TRANSITION TO RETIREMENT

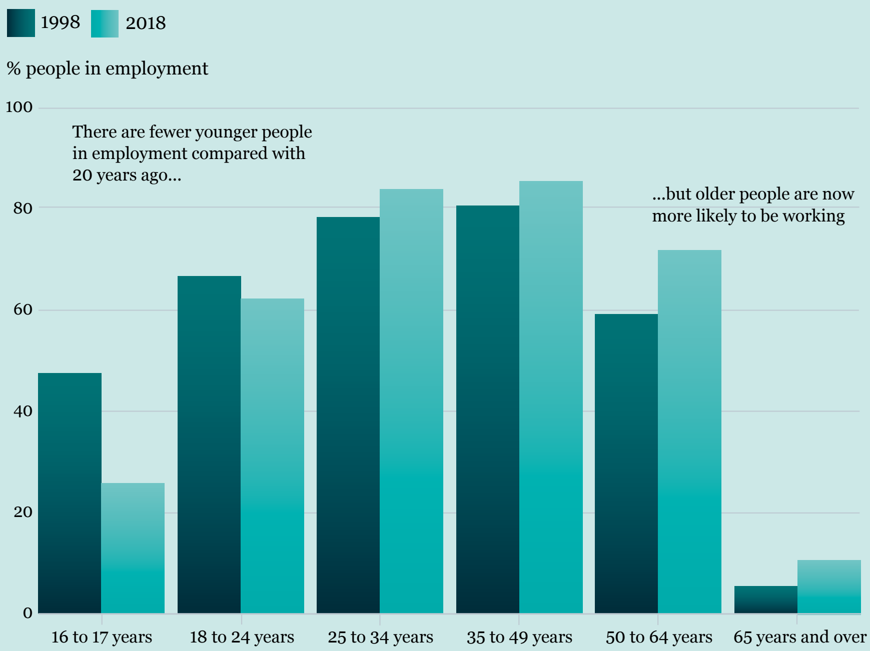
Evidence suggests that the nature of retirement continues to evolve, with older workers increasingly preferring to wind down work commitments as part of a phased approach to retirement.

Research by Aegon found that half (49 per cent) of workers over the age of 50 reported they would like a 'pre-retirement' period with a lightened workload instead of taking a more traditional approach (with a traditional approach being a 'cliff edge' moment where they cease work altogether). Only 31 per cent of respondents indicated they would prefer to retire in a more traditional manner[20].

This is reflected in labour market statistics, which show higher participation rates among older workers compared to older cohorts (see graph below).

THE SHAPE OF THE LABOUR MARKET HAS CHANGED IN THE LAST 20 YEARS, WITH MORE OLDER PEOPLE WORKING

Employment rate by age group, UK, and 2018



[21]

20. https://www.peoplemanagement.co.uk/news/articles/half-older-workers-want-avoid-cliff-edge-retirement
21. https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/howwouldyousupportourageingpopulation/2019-06-24

Once in retirement, evidence suggests that people move through different phases that require different levels of support. Research[22] by the PPI indicates that these phases can be categorised as:

i. **Independent Phase:** In this phase, people tend to have minimal physical limitations and good health. In general, they are more able to engage with retirement activities.

ii. **Decline Phase:** In this phase, people tend to have at least one mild physical limitation, and become more likely to experience declines in physical health and cognitive ability,

iii. **Dependent Phase:** In this phase, people tend to have at least one severe physical limitation and are more likely to need significant support to maintain an independent lifestyle. They may also move into a care facility.

Our proposed solution seeks to provide the flexibility necessary to cater for the changing needs of people in the run up to and during retirement.

IMPLICATIONS FOR OUR SOLUTION:

These key strategic changes to the pensions market could enable a comprehensive approach to retirement income provision in future that would mitigate the risks savers face at and in retirement.

Taking account of the context our solution:

- Learns lessons from the success of automatic enrolment, the experience of the OMO and the current advice and guidance context – in order to offer more support to savers in relation to retirement/ decumulation decisions and into retirement, recognising the roles inertia and nudge play.
- Is mindful of the growing potential for decumulation products to evolve over time as DC pots grow and peoples reliance on this as a source of income grows over time, and also recognising the small pots issue.
- Seeks appropriate solutions for different types of vehicles and fully uses the opportunities now available in a more consolidated market - while not creating radically different experience for consumers across different parts of the landscape.

22. https://www.pensionspolicyinstitute.org.uk/media/3228/20190717-living-through-later-life.pdf

SECTION 2: SAVERS AND THE RISKS THEY FACE

SUMMARY

The pension freedoms mean savers have much greater choice about how they can use their retirement savings. While this intuitively feels like a valuable development, it has also introduced an increased element of risk for savers. Understanding the nature of the risks arising from this system, and also the evidence around how savers are using the pension freedoms, is key to providing an appropriate solution.

- Some of the risks savers faced in the pre-pension freedoms era have been exacerbated. For example, elements of decision risk, information asymmetry and engagement challenges have increased - due to the increased choice, and nature of risks savers need to consider and make decisions about. Our solution therefore seeks to provide additional support for savers in navigating the process at retirement and beyond.
- The removal of the requirement to annuitize, and the subsequent drop in annuity purchases introduces a plethora of new economic risks - such as running out of money, managing investments - risks that previously were not borne by the saver. Our solution, therefore seeks to provide a basic offering to help manage the risks savers face.
- The available evidence regarding saver behaviour suggests that people are not seeking to balance their short- and long-term needs in the decumulation decisions they are making, but favouring immediate access to cash over long-term security. Our solution seeks to guide savers at retirement decisions in a way that helps to trade-off these risks and consequences.

Our solution continues to enable consumer choice, but also provides for the type of support that addresses the key risks for savers in the system (as evidenced by the choices they make). This section considers the specific risks posed to savers by the current environment.

INTRODUCTION

The introduction of the pension freedoms created new options for savers in the way they access their accumulated pension savings. However, these options are accompanied by a range of risks for savers, risks that are either new or more pronounced. These risks are discussed below and placed in the context of available evidence about savers' behaviour in regard to the pension freedoms.

RISKS

Savers face a variety of risks to their income in retirement. Some of the key risks that can affect the value of pension savings include:

- **Longevity Risk:** Individual life expectancy is affected by a range of factors and people tend to be poor at judging their longevity[23]. Unless a DC saver purchases a lifetime annuity contract, they are exposed to the risk of running out of money in retirement (as a result of drawing down their savings too quickly). We are yet to learn whether issues such as the Covid pandemic will shift people's perception of longevity and lead to less economically prudent behaviour. Equally, some savers may expect to live longer than the average for their cohort, which may lead them to be too cautious in their spending habits (i.e. draw down their savings too slowly). This exposes them to the risk they might underspend, for fear of running out of money, and live a lower standard of living than necessary in retirement[24].
- **Inflation Risk:** Savers' pension portfolios tend to be growth-oriented during the accumulation phase, being invested in assets that are expected to outpace inflation over the long-term. In the run up to retirement, portfolios have typically been readjusted[25] towards cash or cash-like assets to protect against investment losses and be ready for withdrawal. Ordinarily, these assets will not outpace inflation, which exposes savers to the risk that their spending power will erode in the lead up to and over the course of retirement. This risk is significant particularly in the first few years of decumulation if the investment strategy skewed away from risk-seeking assets for example where liquidity is favoured or just due to unwise investment choices. This could have a disproportionate effect early in retirement when the pot value is still relatively large or where there is potentially a long duration of retirement.
- **Investment Risk:** Equity exposure provides savers with wealth-building and inflation-hedging benefits, but it also subjects them to the impact of market volatility[26]. Downturns in the market can have a profound impact on retirees' accumulated savings in decumulation (where they would benefits from 'pound cost averaging' in the accumulation phase, downturns result in 'pound cost ravaging'). Equally, there are significant risks to investing in cash or cash equivalent assets, namely their inability to generate the returns required to provide a sustainable income. To mitigate this, members need suitable investment strategies that generate a sustainable income. Time will tell the impact of Covid 19 on the behaviours, savings and future income of current cohort of those approaching and in retirement.

23. See, for example, IFS, Subjective Expectations of Survival and Economic Behaviour (2018).
24. The PLSA's Retirement Living Standards are a useful means of helping savers manage their annual retirement budgets, according to the lifestyle they would like.
25. NB: This is changing as investment strategy evolves to take account of the Pension Freedoms. A range of schemes and providers have implemented multi-asset funds that give savers exposure to a wide variety of assets in both the accumulation and decumulation phases.
26. Of course, this is the case in the accumulation phase, but savers benefit from both the long-term time horizon of the accumulation phase – meaning that they have time to recover from market downturns – and the effect of pound cost averaging (which, in retirement turns to pound cost ravaging – a form of sequencing risk).

- **Decision Risk:**
  - Unless savers choose to take regulated financial advice (and that advice is deficient), the consequences of the decisions they take regarding their pension pots are borne by them alone. The complexity of decumulation decisions often results in people 'choosing not to choose' or taking the path of least resistance[27]. This can have significant negative consequences for the sustainability of retirement savings.
  - Decision risks are exacerbated as retirement progresses because decision-making capability can decline substantially as age increases (so called 'dementia risk') – and most of the non-annuity options require ongoing management and decision making on the part of the saver throughout retirement. There are also number of more nefarious risks associated with vulnerability of declining cognitive function[28].
  - Financial planning: expenditure patterns in retirement change over time – with higher expenditure in the more active earlier years of retirement, including on leisure pursuits etc. – the later years see a tail off in expenditure, but with an increase in general health costs. Pension saving was never designed to cater for social care costs – but people's concerns about this and not understanding what their expenditure levels will be may lead them to make disadvantageous decisions.
- **Information Asymmetry:** Savers tend to be poorly informed about retirement products, the costs involved in purchasing them, the investment composition underpinning them, etc. On the other hand, those entities providing retirement products understand them and the dynamics of the market in which they are offered. This creates potential conduct risks for product providers and serious risks of poor outcomes for savers.
- **Purchasing Power:** Consumers acting individually in any market possess weak purchasing power. This is no different in the retirement market and exposes consumers to the possibility that they will pay more for retirement products as individuals than they would do if they were purchasing retirement provision as a collective via an institutionally-governed default.

Question 1

- Are there any risks that savers face that we have not identified in this section? If so, please specify them.

Question 2

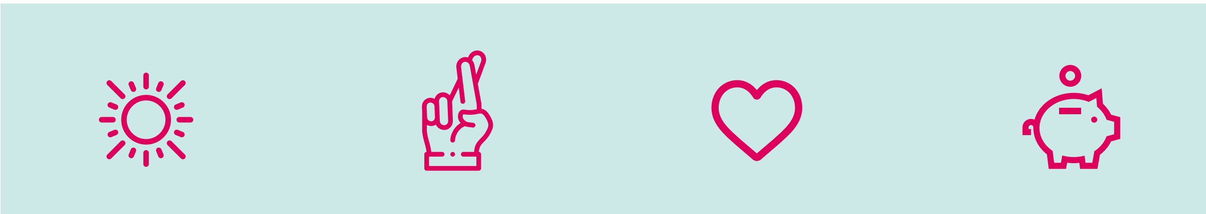
- Do savers in trust-based schemes face risks that are any different to people in other forms of pension arrangement?

27. This was one of the main findings of the ROR, which states that "that many consumers, particularly when focussed on taking their tax-free cash, take the 'path of least resistance' and enter drawdown with their existing provider." See FCA, Retirement Outcomes Review: Final Report (2018).
28. Dementia risk can lead to several causes of financial detriment for those drawing an income from their pension savings, including sub-optimal decisions about retirement products, an increased potential to be the subject of scams, and other forms of financial abuse (e.g. family members taking advantage of a relative's situation). Further information on these risks can be found here.

BEHAVIOUR

The pension freedoms have introduced or heightened these risks for the majority of savers, by increasing the complexity of decisions at- and in-retirement. Research shows that many people feel overwhelmed by the complexity of these choices and are not confident in their ability to navigate the options available to them. This is a source of procrastination, as people delay decisions about their decumulation options until they feel able to dedicate the 'mental bandwidth' necessary to consider them properly[29]. Research also suggests that savers tend to take the path of least resistance, which can lead to poor retirement outcomes[30].

Research by Ignition House (on behalf of The People's Pension and State Street Global Advisers) found that the challenges people face in engaging with their options at retirement are so significant that solutions derived via the individual purchase of retail options are not appropriate (see diagram below)[31]. This work concluded that simple default options would be more appropriate.



Those that have chosen to spend some cash now have few regrets, with many believing the happiness generated from a holiday or a car now far qoutweighs any benefit from a potentially 'paltry' income in the future.

However, indecision and confusion remains rife - with many still either deferring decision making or simply taking a chance and hoping everything will turn out for the best.

Those that have made decisions, have often been guided by life events such as the arrival of a grandchild or health issues, rather than by a longer term financial plan.

Those most at risk adverse are largely choosing to take an annuity or deposit their pot in cash savings. In many cases, withouy fully understanding the implications of their choice.

CONCLUSION

Engagement remains a key challenge. Given this, it is unlikely that 'retail' solutions alone are going to be appropriate. Instead, institutional options, most notably simple and effective default options and access to low cost, trusted advice or tailored decision trees will be increasingly important.

29. TPP & SSGA, New Choices, Big Decisions: Exploring Consumer Decision Making and Behaviours Under Pension Freedom and Choice (2016).
30. FCA, Retirement Outcome Review: Final Report (2018).
31. TPP & SSGA, One Year On - Part 3 of New Choices, Big Decisions: Exploring Consumer Decision Making and Behaviours Under Pension Freedom and Choice (2017).

Research from across the market indicates that people have demonstrated a clear preference for the use of flexi-access drawdown since the advent of the pension freedoms.

The FCA's *ROR*, based on retirement income market data collected from 56 pension providers, found that accessing pension savings early (i.e. prior to State Pension age) has become the 'new norm'[32]. Prior to the reforms, 90 per cent of pension pots moved into annuities in the decumulation phase. By the time the FCA released its final ROR report (June 2018), twice as many pots were moving into drawdown than annuities[33].

HMRC data show that the total value of flexible withdrawals from pensions since the introduction of the pension freedoms has now exceeded £35 billion (opposite).

NUMBER OF INDIVIDUALS TAKING FLEXIBLE PAYMENTS FROM PENSIONS AND VALUE OF FLEXIBLE PAYMENTS FROM PENSIONS

Average withdrawals have been falling steadily and consistently as more people access their pension pots flexibly. Although the total amount withdrawn in Q1 2020 markedly increased from the same period in 2019, the average withdrawal fell by 3 per cent. Withdrawal numbers typically rise in the first quarter of a given year and peak in the second quarter, as this coincides with the beginning of a new tax year[34].

32. At the time of writing, the FCA found that 72 per cent of pots had been accessed by savers under 65 and 53 per cent of pots accessed had been withdrawn completely.
33. FCA, Retirement Outcome Review: Final Report (2018).
34. HMRC, Flexible Payments From Pensions: April 2020 Statistics (accessed 26/05/20).

Data for Q1 2020 do not indicate that the Covid-19 pandemic caused a spike in withdrawals, though the impact of this is likely to be reflected Q2 data (given that it only had a limited impact in the UK in Q1). It is possible this will show a significant increase in withdrawals, as people access their pension savings. Increased access to pension savings could be the result of short-term financial difficulty (e.g. people being furloughed or losing their jobs) or it could be a behavioural response to savers (over 55) seeing short-term falls in the value of their pension savings.

Although data is available that shows how savers in contract-based pensions are behaving (ROR) and aggregate data is available (HMRC, consumer research, regulator and other government collected data) that indicates how savers in general are accessing the pension freedoms, limited detailed data is available that illustrates specifically how savers in the trust-based sector are using their newfound flexibilities. There are a number of reasons for this, including that the number of people retiring and taking benefits from master trusts is relatively low compared to other pension providers.

There is little evidence that people understand the trade-offs inherent in the different products available to them or consider them to a significant extent. Research suggests that the main driver leading savers to access their pension savings is a desire to take tax-free cash. Work carried out by

The People's Pension (TPP) found that participants perceived drawdown simply as a by-product of accessing tax-free cash and people had given little thought to their remaining pension savings[35]. Research undertaken by the defined contribution Investment Forum (DCIF) came to similar conclusions[36].

Equally, there is little evidence that savers are attempting to mitigate the risks posed by the pension freedoms via increased participation in financial planning activities. Half of savers who have not yet retired have spent little time thinking about how they will manage financially in retirement and 13 per cent have not thought about it at all[37]. Though better information and improved guidance and advice services can help savers with at-retirement decisions, they are clearly not a solution for the majority, who tend not to engage in financial planning activities throughout their lifetime.

Perhaps as a result of these factors, and the low level of financial capability people possess, there is little evidence of savers operating as effective consumers in the at-retirement retail market. The ROR found that few people were shopping around, which led to low levels of switching – with most people taking the path of least resistance and entering drawdown products from their pension accumulation provider[38]. This follows the pattern that was observed before the pension freedoms in relation to engagement with pension, financial planning, and the Open Market Option.

This indicates that there is a need for a solution that helps consumers achieve a good retirement outcome – accepting that all the challenges around engagement, which have informed successful policies like Automatic Enrolment, have not fallen away or been resolved in respect of the complex decisions that the pension freedoms bring. Indeed, recent research suggests that the vast majority of people (77%) want their pension provider to offer them a ready-made solution[39]. The pensions industry is well-placed to deliver nudge based options and solutions -and the developing landscape will make such solutions increasingly viable.

35. TPP & SSGA, New Choices (2016).
36. DCIF, Five Years of Freedom (2019).
37. DCIF, Five Years of Freedom (2019).
38. FCA, Retirement Outcome Review: Final Report (2018).
39. DCIF, Five Years of Freedom (2019).

Question 3

- Do you hold or are you aware of data that shows how savers in trust-based pensions are using the pension freedoms? Is this materially different to how savers in other arrangements are accessing their pension savings?

Question 4

- What is driving the way in which savers in trust-based schemes access their pension saving? Are these drivers different to those present in contract-based schemes?

Question 5

- Do you hold or are you aware of evidence that illustrates whether there are material changes to how savers are accessing their pots since Covid 19 outbreak and why this is – to illustrate whether saver behaviours shift in response to the changes in investment, inflation or longevity risk to which they are now exposed.

IMPLICATIONS FOR OUR SOLUTION

Evidence that we have to date would indicate that savers need more support in navigating the at-retirement process, and that a path of least resistance to a product that has certain key features would provide a significant step forward in protecting members from the risks of the new environment, without removing the choices under the pension freedoms.

Our solution therefore seeks to:

- Provide additional support for savers in navigating the process – to help address some of the information, engagement and decision risks.
- Provide a basic offering to help manage some of the new economic risks savers face – e.g. a product or signposting to a product with minimum requirements.
- Guide savers at retirement decisions and beyond in a way that helps to trade-off short and long term risks and consequences.

PENSIONS AND
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SECTION 3: MARKET CONTEXT

SUMMARY

The pension freedoms created opportunities and risks - not only for savers, but also for schemes and providers. Our research indicates that across the market schemes' responses to the pension freedoms have varied, with subsequent disparity of experience for savers. There also appear to be some gaps in current product design. This is broadly a consequence of schemes managing the various risks that arise in delivering activities to support savers. It also reflects pre-existing and evolving regulatory requirements.

Our solution, therefore, seeks to mitigate the main risks for schemes where these are impeding them from offering more support to savers. It also seeks to provide a clear framework of expectations designed to deliver a more consistent experience across the market, to support demand side pressures, and to help support emerging innovation and drive future change.

- We have sought to offer a viable solution to the engagement challenge outlined in section 1and the difficulty trustees face in catering for individuals who do not engage (where personal financial information is absent). Our proposal seeks to address this challenge by offering a basic route for schemes which protects those savers who do not engage, but also enables and facilitates individual choice.Where options are increased and new risks introduced for savers, the litigation risk for schemes in providing support and offering solutions rises commensurately. Our solution seeks to reduce the tension between the support and products savers need and the risk in providing it.
- Offering savers support and protection against some of the key risks regarding retirement income brings additional governance, operational, and funding cost risks, which may be disproportionate for some schemes. Our solution, therefore, seeks to cater for different scheme types and sizes, provide a framework for product design, and deliver an equivalence of saver experience.

This section sets out the risks schemes face in the current decumulation environment, some observations on product design, and outlines how contract- and trust-based schemes have responded to the demands of the pension freedoms.

INTRODUCTION

Two of the key opportunities and challenges for schemes and providers in moving beyond current minimum obligations are: to provide the right type of support to savers in terms of facilitating engagement with their options, and managing risks to themselves and to savers, and in providing products that cater for the breadth of risks that savers face.

Different parts of the market have different roles to play – ranging from decumulation product designers and providers, guidance functions and professional advisers - and scheme trustees and providers who bridge the transition for their savers from accumulation to decumulation.

It is essential that as the saver moves between these structures that they do not fall between the gaps – and that the demand and supply side equation works efficiently. Regulation has a key role to play in intervening appropriately, where necessary, to correct any imbalances in risks and outcomes.

RISKS FOR SCHEMES

PLSA members have highlighted a number of barriers to trustees supporting savers more fully with their decumulation options. Recent sectoral research confirms that these risks are felt across the market[40]. The key risks schemes have identified are set out below.

- **Information Risk:** Schemes are concerned about the appropriateness of trustees supporting savers' decumulation decisions when the information available to them about a saver's total pension savings (and wider lifetime savings and financial situation more generally) is necessarily limited, and spectrum of options under the pension freedoms is significantly broader than pre-pension freedoms. Although the trustees of some schemes provide access to services that attempt to engage savers individually to help them arrive at a personalised solution, take up of these services is low.
- **Litigation Risk:**
  - *Schemes/trustees:* Many schemes are concerned that where trustees decide to provide more comprehensive support to savers with their decumulation decisions, they could be subject to legal action – some feel this could relate to where savers consider that trustees have either not acted in the best interest of the scheme members or have not delivered the optimal outcome – others in respect of what they have or have not communicated to them. The consequences would be damaging to other savers in the trust and to the sponsoring employer. This has led some trustees to limit the support they give to savers at this stage to the statutory minimum.
  - *Employers:* Occupational schemes – in particular single employer trust based schemes and especially those managed in-house- are concerned about the risk to employers where trustees provide more extensive support to savers at the point of retirement – the nature and extended duration of responsibility for the retired cohort. Where trustees in this situation may be liable for decisions taken in the interest of savers, employers may be financially accountable for any litigation that may take place and may also suffer reputational damage to their brand.

40. DCIF, Five Years of Freedom (2019).

- **Operational risk and financial cost:** Operating decumulation options brings additional complexity and administration and governance processes, which come with a cost that could be disproportionate relative to the accumulation element. Schemes and providers of all types will most likely pass this cost on to the employer and/or the member.
- **Funding Risk:** In addition to operating costs, trustees and providers are wary of offering products that offer a guaranteed income due to the associated high funding requirements and solvency requirements respectively.
- **Regulatory Risk:** Schemes providing support above the minimum requirements are at risk of breaching Section 21 of the Financial Services and Markets Act ("a person must not, in the course of business, communicate an invitation or inducement to engage in investment activity") if they signpost to a regulated drawdown product in a manner deemed to amount to an invitation or inducement.
- **Marketing Risk:** Recent statements by the Information Commissioner's Office (ICO), including its consultation on its draft Direct Marketing Code, could limit the type and extent of electronic communications schemes and providers can have with members. This has the potential to hinder activities that scheme trustees deem to be in the best interest of members.
- **Advice/Guidance boundary** – schemes and providers are also wary of inadvertently stepping into the regulated advice.

Schemes are acutely aware of the risks inherent in not supporting savers with decumulation decisions (i.e. the risk of doing nothing) beyond the statutory minimum requirements. However, PLSA members have highlighted the challenge of overcoming conservative legal advice that reinforces the tendency to adopt an approach that is deemed to present the lowest risk (i.e. providing support to savers in line with the statutory minimum).

Recent research found that schemes believe the DWP and TPR have done little to mitigate these risks (particularly the litigation issue), as there is a perceived lack of guidance regarding regulators' expectations of how trustees should support savers' decumulation decisions[41].

This suggests that greater clarity regarding the Government's expectations of how schemes should support savers with their decumulation options would be welcome and could help to diminish the risks identified above.

Question 6

- Are there any risks or barriers that schemes face providing retirement solutions (including support to savers above the statutory minimum, and/or signposting or providing products) that we have not identified in this section? If so, please specify them.

41. DCIF, Five Years of Freedom (2019).

PRODUCT DEVELOPMENT

Since the introduction of the pension freedoms, the number of ways to access and use pension savings has grown. However, one significant gap remains the evolution of composite products that balance the short- and long-term needs of retirees (combining, for example, flexibility in the early years of retirement with security in later years). Equally, products that enable savers to take conscious choices to secure their long-term needs (e.g. deferred annuities) – sacrificing some consumption in the short-term – have not got off the ground in the UK.

Some of the challenges here relate to economic feasibility which in turn is impacted by funding and solvency requirements[42], and the size of current DC pots – which as we have explored earlier in the paper are set to rise. However, we have also seen that savers response to the pension freedoms, due in part to the complexity of options, and what we know from behavioural insight about taking the path of least resistance, means the demand side may not be working sufficiently.

Some progress has been prompted partly by regulatory intervention (e.g. the investment pathways) to correct market failures and partly by the evolving pensions landscape. Nevertheless, there remains a significant gap in demand-side pressure and supply-side response for products that balance retirees short- and long-term needs, as evidence shows that people tend to opt for flexibility in how they access their pension savings.

PENSION FREEDOMS: TRUST BASED SCHEME RESPONSES

At present, trustees are required to provide information to savers in the run up to retirement via 'wake up' packs and signpost members to Pension Wise at-retirement. This is the extent of their legal obligations, though, of course, many schemes do much more to support members in practice. The trust-based market is evolving in advance of regulation to serve the needs of consumers in their decumulation decisions.

The PLSA commissioned research[43] in 2018 to explore how trust-based schemes have responded to the evolving decumulation environment, following the implementation of the pension freedoms. This research suggested that trust-based schemes have adopted one of five typical retirement journeys, which provide varying degrees of support and different options to scheme members.

The five categories are:

i. A minimalist approach that leaves the member to determine their journey themselves.
ii. Employer/scheme support to access regulated advice or personalised guidance (the most common journey among single employer trusts).
iii. Signposting members wishing to drawdown to negotiated terms with a master trust or group personal pension arrangement.

42. Product providers have indicated that this is, in large part, a result of the fact that the capital holding requirements for such products – governed by the EU's Solvency II regime – are too onerous for them to offer deferred annuities at scale.
43. PLSA, The Evolution of Drawdown (2019/20).

iv. The provision of in-scheme drawdown solutions (typical of several master trusts interviewed) taking them 'to and through' retirement (in addition to other options).

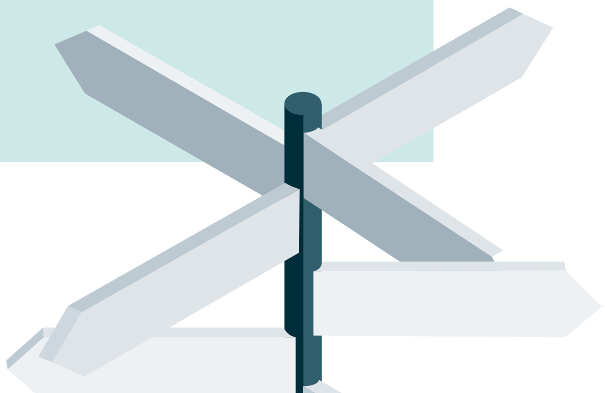
v. Plans to extend these solutions to include multi-pot options.

In 2020, the PLSA updated this research and found that the key themes identified in the 2019 report continued to hold true. These are set out in the box below.

The Evolution of Drawdown: Key Findings[44]

- At a scheme level, Drawdown has become the most common destination for the default pre-retirement glide path, replacing the annuity destination for most retirees. Some schemes are reviewing their glide path default investment strategy as thinking about sustainable drawdown solutions evolves and member behaviour changes.
- In-scheme fully flexible drawdown providing a regular income is available or in development in the majority of master trusts interviewed. However, some master trusts have not been able to launch their new propositions as quickly as they had previously anticipated.
- None of the single employer trusts interviewed provided fully flexible in-scheme drawdown, though a small number provided limited drawdown flexibility. Just one single employer scheme (not interviewed) is known to have in-scheme drawdown that is designed to provide a regular income. Other schemes provide either limited drawdown or UFPLS, though some continue to require all funds to be transferred in order for members to access their money.
- Several master trusts are leading the way in the development of new income drawdown solutions, including the development of multi-pot solutions that seek to address the risks posed to retirees' financial wellbeing by later life issues.
- Extensive growth has taken place in single employer schemes signposting to master trusts for drawdown following the master trust authorisation process. Trustees are reported have become comfortable with the risks of acting in this way (recent research by the defined contribution Investment Forum (DCIF) found something similar: trustees feel more comfortable referring members to a trustee-governed service than a retail product).
- Across the board, schemes are investing more into member engagement, seeking to encourage members to plan early for their retirement journey. Improving member communication and engagement continues to be an important focus for all schemes. Work continues in ensuring that communication about decumulation and drawdown can address all levels of financial literacy.

This shows a good direction of travel, but we consider more needs to be done to support and accelerate these developments across the market as a whole.



44. PLSA, The Evolution of Drawdown (2019/20).

Question 7

- Are there other developments that have taken place in the trust-based sector that we should take into consideration in shaping our proposed decumulation policy?

PENSION FREEDOMS: CONTRACT BASED PROVIDERS RESPONSES

The FCA's *Retirement Outcomes Review* (ROR) considered how the retirement income market had evolved and reported that many non-advised drawdown customers have lost out on retirement income because their pension pots were invested in cash, even though they did not intend to spend their money in the short-term. The ROR estimated that between 2015 and 2018 more than 2.3 million contract-based pots had been accessed for the first time, with the bulk of customers taking cash – largely by withdrawing their savings fully.

The FCA set out a package of proposed remedies to improve consumer outcomes, namely the provision of a series of investment pathways to customers at retirement. Investment pathways are aimed at savers who, having received prompts to take advice or guidance, decide to access their pensions through drawdown without taking advice. Under these regulations, consumers are required to allocate their pension savings to one (or more) of four investment pathways[45] according to their objective(s)[46].

The FCA has introduced a new duty on IGCs to oversee the value for money of investment pathway solutions for pension drawdown. Under this new arrangement, IGCs are required to weigh up the quality of the pathway solution and associated services against the costs and charges paid by the consumer (before it is offered to customers)[47].

INVESTMENT PATHWAYS

Pension providers have invested significant time, effort, and resource into bringing the FCA's investment pathways to life, with full implementation required by February 2021 (delayed due to the impact of the Covid-19 pandemic).

Many of the providers who have or will soon implement investment pathways for their GPP customers also operate trust-based pension vehicles (e.g. master trusts). Where this is the case, we accept that providers may want to implement the same decumulation solution across their entire customer base to avoid layering in complexity and additional cost, and facilitate smooth customer journeys.

45. The FCA has mandated the wording and numbering of the objectives (set out below) and has introduced a timeframe for each to improve clarity for savers.
46. Larger pension providers must provide pathways solutions for at least two of the four objectives and refer consumers to another provider's pathways solutions for any objectives for which they do not themselves provide a pathways solution.
47. FCA, Independent Governance Committees: Extension of Remit (2019).

We do not intend our proposed solution to replace the pathways, but to build on them. Our solution intends to resolve broader issues than FCA pathways, which were designed to mitigate very specific risks. Notwithstanding this, we have adopted the principle that savers should at minimum experience materially similar journeys under both regimes, where appropriate for the circumstances and the needs of the member. If we were not to do this consumers may otherwise be overwhelmed or confused by receiving communications of markedly different types and in a widely different frequency.

We believe that our solution should not introduce disproportionately different, unduly complex or unnecessary additional prescriptive requirements for providers or savers. Similarly, we do not wish to hamper the progress of schemes or providers that have already adopted pathways from complying with retirement income strategies, even where FCA pathways have been adopted outside circumstances where it is a regulatory requirement to do so. We illustrate this further in the diagram below.

The PLSA believes that the investment pathways represent a step in the right direction, but we have concerns about their long-term suitability (see Annex A for more details on the PLSA's assessment of the investment pathways). We see the pathways as the first step towards a more comprehensive approach that addresses the broader risks savers and schemes face in the retirement market.

Question 8

- If your trust-based scheme is implementing a drawdown solution, to what extent are you utilising the approach set out by the FCA (i.e. the investment pathways)?

IMPLICATIONS FOR OUR APPROACH

The number and type of risks that schemes are facing has led to a range of different responses reflecting risk appetite and different scheme types. Product evolution has been influenced by a number of factors including funding, solvency and other regulatory requirements (such as rules around financial promotions and the challenges schemes/ providers face in navigating the advice/guidance boundary), as well as pot sizes and economic feasibility. It has also been affected by a relatively weak demand side pressure. As a result some savers are likely to be losing out and not achieving the best retirement income.

Our approach seeks to:

- Provide a path for savers who do not engage, which protect them from the most significant risks, but also enables choice and options.
- Offer mitigation in respect of some of the key risks schemes are facing – including litigation risk.
- Create a framework to support innovation regarding product design that seeks to mitigate risks to savers.
- Support equivalence of experience across scheme types and the sector.

SECTION 4: A NEW APPROACH TO RETIREMENT INCOME

SUMMARY

The PLSA recommends that:

The Government should introduce a new regulatory regime. This new regime should require:

I. The creation of a new statutory obligation for schemes to support their members in respect of decumulation decisions

II. This support should consist of three specific elements:

   a) Member engagement and communications
   b) Decumulation products (provision of or signposting to)
   c) Scheme/governance processes relating to design and/or selection and ongoing delivery of the two above elements.

III. A set of standards should apply to each element.

IV. Guidance to support schemes to deliver the three key elements and work within the standards.

This proposal drives forward the work begun in *Hitting the Target*, seeking to turn those widely supported proposals into practical and deliverable solutions. It takes into account the broader landscape, trends and trajectories, savers risks and current behaviours, the risk to schemes in operationalising the solution, as well as recent market developments.

The key objectives it seeks to meet are to:

- Provide more support to savers who do not engage with their options - utilising the lesson from AE and OMO – as well as supporting freedom and choice for those who do
- Enable and seek to shape future product development towards better managing risks for savers as DC pots grow, and dependency on DC derived incomes increase
- Utilise the benefits of scale operations and the mechanisms such as the trust based fiduciary duty and also IGCs responsibilities
- Support a base-line and equivalent or similar saver experience across the market – while enabling innovation and best in class to flourish
- Mitigate or help manage some of the savers' risks
- Mitigate some of the key risks schemes are facing – including litigation, financial and operational risks.

This section unpacks this new solution in more detail.

INTRODUCTION

In its 2018 report, *Hitting The Target: a vision for retirement income adequacy*, the PLSA proposed a new framework for DC decumulation called 'guided at-retirement decisions'. This was the result of a consultation process with the retirement savings sector and was informed by information on best practice from other markets. At the core of the new framework was the PLSA's desire to guard against poor outcomes for savers in the decumulation phase.

Since the release of *Hitting The Target*, the market has evolved. The main driver has been response to regulation. But also, to some extent, a gradual development of scheme propositions in response to changing consumer needs. These changes have recognised the need to offer consumers more support with their retirement options.

We believe that to create the scale and pace of change needed to appropriately protect members and help them achieve better retirement incomes, further change is needed. We therefore need to press on to implement the recommendations made in *Hitting The Target*. The PLSA has worked with its members and reflected on the findings of emerging research and risks in relation to the approach – in order to refine, develop and operationalise its proposed decumulation framework.

Taking into account the risks and barriers in the current system, we think the right type of change can best be achieved by the introduction of a new regulatory framework. This will level up practice throughout the market, and re-balance the supply and demand side pressures. In turn this will help to mitigate the risks faced by all stakeholders and engender structured at-retirement solutions that offer consumers a consistent experience no matter what scheme they are a part of.

Consultation Respondents' Views

WE BELIEVE THAT THERE IS A CLEAR ARGUMENT TO ALLOW GREATER TRUSTEE OR IGC OVERSIGHT OVER DECUMULATION PROCESSES FOR INDIVIDUALS WHO WON'T OR CAN'T ENGAGE. IN OUR VIEW, THERE IS A ROLE FOR CONSUMERS TO BE GUIDED TOWARDS PRODUCTS WHICH PROTECT AGAINST CONSUMER DETRIMENT.

PIMFA

THE KEY TO GIVING SAVERS A BETTER CHANCE OF GOOD OUTCOMES IS FOR THE ESTABLISHMENT OF DEFAULT PATHWAYS, AS IDENTIFIED IN HITTING THE TARGET. THESE SHOULD BE WELL-RESEARCHED, GOOD VALUE, SECURELY GOVERNED SOLUTIONS THAT WOULD BE SUITABLE FOR MOST SAVERS. THOSE WHO WISHED TO PURSUE AN ALTERNATIVE APPROACH WOULD BE FREE TO DO SO.

TUC

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PROPOSED REGULATORY FRAMEWORK

PLSA recommends that:

The Government should introduce a new regulatory regime. This new regime should require:

I. The creation of a new statutory obligation for schemes to support their members in respect of decumulation decisions

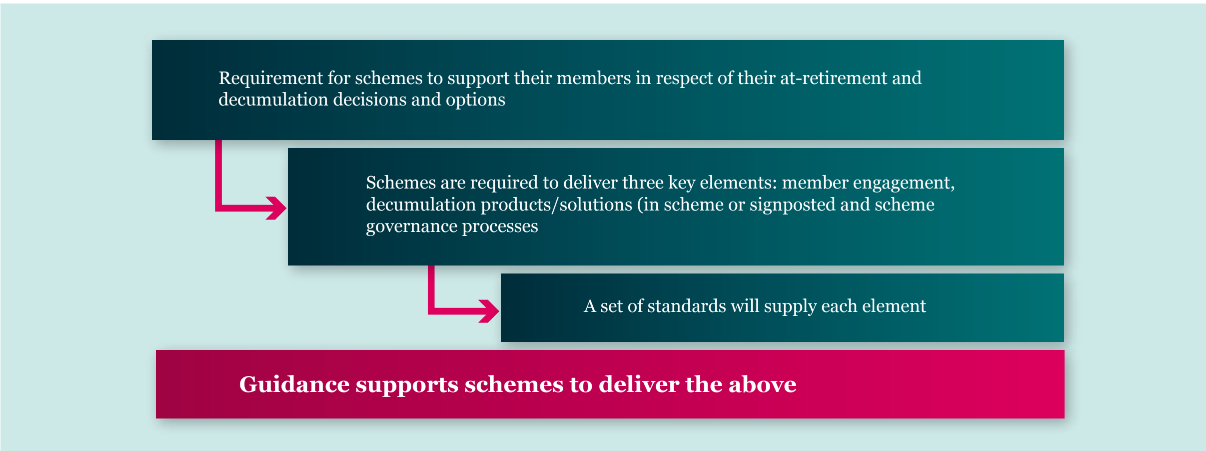
II. This support should consist of three specific elements:

   a) Member engagement and communications
   b) Decumulation products (provision of or signposting to)
   c) Scheme /governance processes relating to design and/or selection and ongoing delivery of the two above elements

III. A set of standards should apply to each element

IV. Guidance to support schemes to deliver the three key elements and work within the standards.

NEW REGULATORY REGIME



STATUTORY OBLIGATION

The rationale for a statutory obligation is in order to address some of the key risks that schemes face in relation to the proposal in HTT for schemes to signpost to products. It removes the barrier created by uncertainty, and mitigates the risk of some forms of litigation – factors which have resulted in variances in processes and levels of support for savers across the landscape and slowed the pace of change.

In *Hitting The Target*, we recommended that trustees operating in the proposed way should be given safe harbour. However, international evidence suggests that safe harbour provisions are not effective in this area. In 2008, the US Department of Labor (DOL) adopted a fiduciary safe harbour regulation under the Employee Retirement Income Security Act (ERISA) that provides a framework for selecting annuity providers. Despite this, research found that plan sponsors retain significant reservations about annuity provider selection, due to uncertainty about the requirements for meeting ERISA's fiduciary standards

(a source of litigation risk)[48]. In the UK, the use of safe harbour in Government policy and legislative requirements in the pension sector is extremely limited, and unlikely we think to be achieved.

In contrast to regulatory safe harbour provisions, we believe that our proposed regulatory regime offers several benefits that would help to mitigate the risks faced by savers and schemes in the current decumulation environment.

While good practice, guidance, and voluntary standards may encourage some schemes to act, it is unlikely to create a step change in those schemes who do not act in line with best practice. By enhancing and clarifying trustees' obligations in this area, the risks that savers might experience some of the more severe outcomes in retirement (e.g. the risk of running out of money prematurely) can be mitigated.

The three elements under this obligation, and specific standards in relation to them, seek to deliver key aspects of HTT proposals in a way that addresses key risks to schemes and members

THREE KEY ELEMENTS

Member engagement and communications-

We know from AE and OMO and general behavioural economic insights, that provision of information is not generally sufficed incentive to act. The risks to savers arising from information asymmetry is significant in respect of complex decumulation decisions. But we know choice and engagement are important.

Therefore the approach the proposal delivers is, as per the HTT recommendation –

a. to encourage active decision making and full engagement by communicating the full options, and facilitating and signposting to guidance and advice – but also
b. to provide for a nudge approach, to create a path of least resistance – via signposting or provision of a product and the standards we recommended under the engagement and communications strand.

We do not think it is possible to default people into decumulation products. But where a member does not opt into the preferred scheme or signposted option, or opt out of the process in order to consider other options, we do think it is appropriate that the scheme should have a suitable default investment strategy to manage the risks to the savers investment returns during this time. Below is a simplified and stylised illustration to demonstrate the example of a specific scheme's approach in the case where members do not engage with communications.

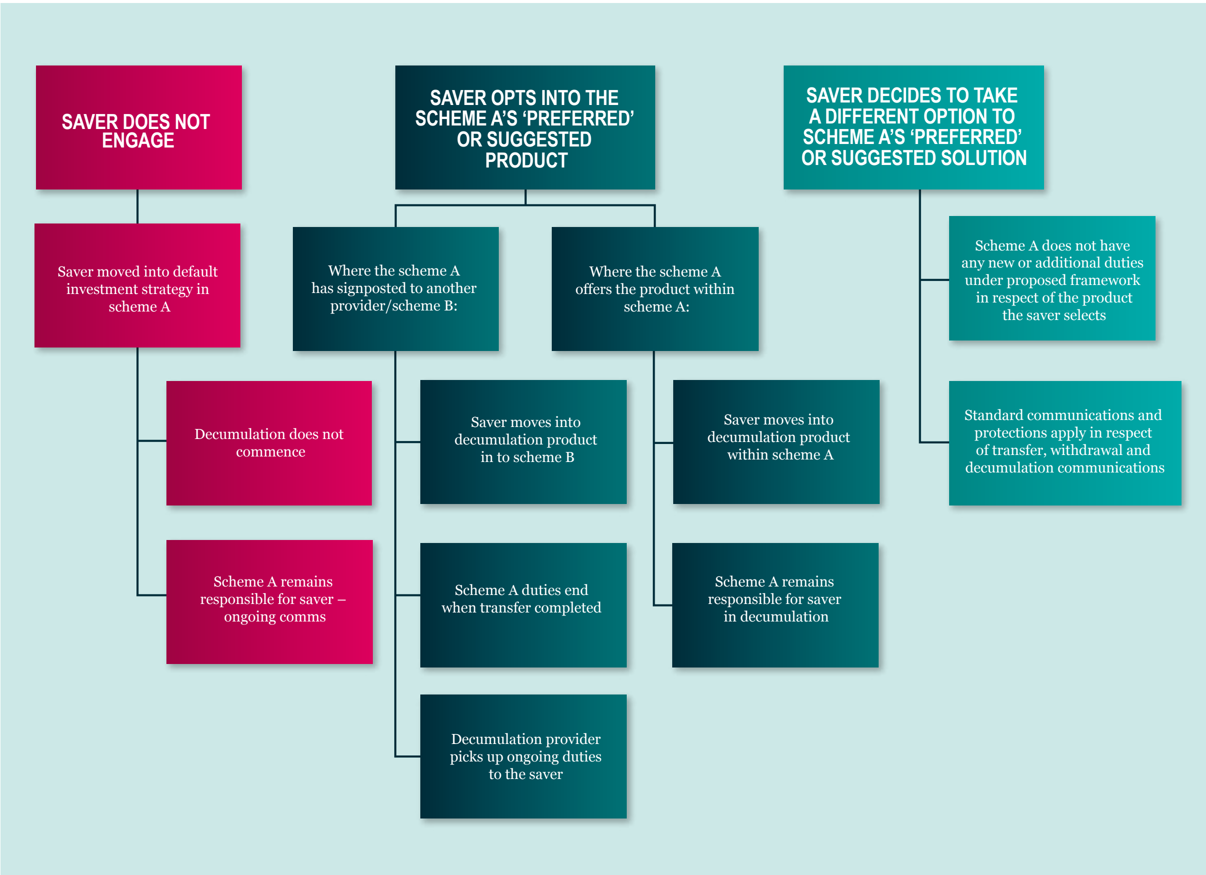
IN ACCUMULATION	AT THE POINT OF ENTERING DECUMULATION	DURING DECUMULATION
The scheme sends relevant communications to the member once they reach 53 years old. Communications setting out the preferred product in clear and simple language and illustrations, signpost them to the preferred solution and remind them member they can opt in.	Scheme sends a communication at the trigger point (member reaching state pension age). The scheme offers the preferred retirement income strategy.	The member is periodically reminded to review their retirement income strategy in light of risks they may be suffering. The scheme continues to communicate with the member to remind them that the retirement income strategy provides options. The scheme's retirement income strategy is designed to deliver a secure and sustainable income. The scheme engages with the member to establish payment.

48. A.M. Antonelli, Generating and Protecting Retirement Income in defined contribution Plans (2019).

The standards also seek to ensure that the schemes re protected in terms of clarity about the type of communication and engagement that is required, and in steering a course that avoids steeping into the advice, or marketing or incentivising space.

In addition, they would also prove an appropriate level of consistency, with requirements suitable to the relevant regulatory frameworks (trust based and contract based) but which seek a level of similarity for savers.

SAVER RESPONSE AND SCHEME RESPONSIBILITIES



NB Scheme A is the scheme saver has been using to accumulate pension. Scheme B is an alternative scheme that scheme A signposts to for the decumulation product/offering

Decumulation Product – signposting or provision.

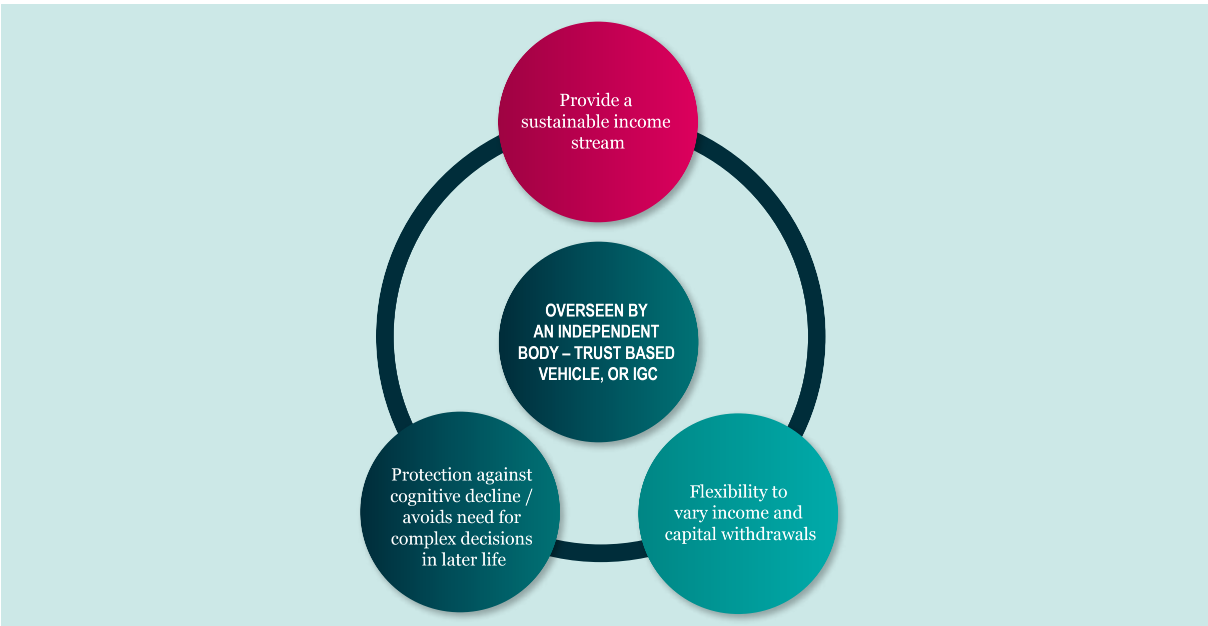
The product element of the proposal is key to providing protection or mitigation to savers in respect of the economic risks to savers – thi oul include having some flexibility to access cash for a limited time, potentially deferred annuyt or other type of secured income for later years when decision making skills may be in decline and usually expenditure is lower, and a form of regular and secure income to replace salary in the early years.

This is an element where potential for innovation in product design and provision will grow, as dependency on DC pots and membership grows. In line with this, the standards will need to evolve over time to reflect the economic feasibility.

However, it is critical to be clear now about the future vision in order for that to stand a chance of becoming reality. So we envisage the standards would include 'having regard to' the key features or standards we consider will become feasible over time and based on the product standards set out in the HTT publication. Inclusion now is intended to help shape future innovation. Through the product standards that schemes will operate under, they will be able to exert more demand side pressure than individual consumer pressing for something that is not yet available and which would require specialist knowledge to construct and demand.

With increased consolidation in the market, and growth of scale operations it is also likely that some of those players will continue to evolve and deliver decumulation products in an efficient and cost effective way – and would align with these requirements.

IDEAL PRODUCT



Signposting was a key and very widely supported proposal in HTT – it enables smaller schemes or scheme who do not wish to undertake or do not have the mandate under contract or trust deed and roles to undertaken delivery of a decumulation product. It addresses the risks for schemes in relation to costs, operability for scheme and employers

Given the concerns about risks to schemes in undertaking this activity, and the navigation required in respect of other regulatory requirements – including this element as part of the obligation and with relevant standards also attached will help to carve out this space more clearly and enable schemes to understand what is required and how to assess who to sign post to.

WHICH SCHEME WHICH DUTY

NB – read across to the consumer types pic - All DC schemes = Scheme A; Schemes offering dec product are Schemes B

Standards for the products are also provide a key member protection element where nudge theory and path of least resistance approach is being deployed.

Governance processes

A number of the issue raised by schemes in discussion about operationalising HTT proposals was about the complexity of decision making in delivering signposting, the regulatory risks, and the clarity about the parameters of the responsibility.

By setting out minimum standards for governance processes this clarity can be achieved. For example, for single trust employer schemes, signposting to an appropriate product would mean that the obligation is fulfilled at the point of transfer. There would be no need for the ceding trustees to provide ongoing monitoring of that product – as that duty would fall to the trustees providing the decumulation product. The concept of ongoing review might apply to the signposted destination – but no more than that.

STANDARDS

The standards will entail higher statutory minimum requirements in relation to member engagement and communications, products, and scheme governance in relation to decumulation than those which exist at present. Examples to illustrate the purpose and function of the standards underpinning each of

the key elements are provided in the above paragraphs. To summarise in broad terms we are aiming to do several things, namely:

i. Providing more structure in the retirement space to enable institutional actors (i.e. pension schemes) to influence the product supply side (either directly, by developing new products themselves, or indirectly, by stimulating the development of new third-party products).

ii. Leveraging the institutional buying power of pensions schemes to help influence the cost of retirement products/solutions for savers.

iii. Enabling and shape the development of effective products/solutions that serve the needs of those savers retiring in the near future, While enabling schemes to adapt to the different needs of successive cohorts (e.g. those future cohorts with larger DC pot sizes, those future cohorts with little DB provision, etc.).

iv. Ensuring that those aspects of the solution meet a certain quality standard, to support the use of nudge theory and provide appropriate member protection in relation to this approach.

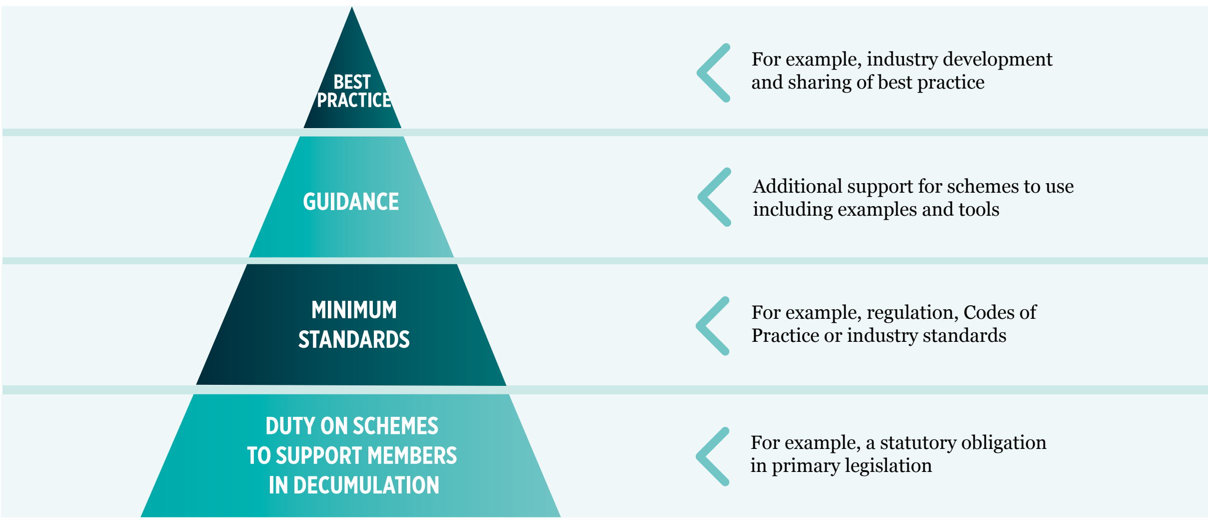
v. Help to protect savers, by maintaining the quality of a scheme's offer, and providing a safety net to protect savers against the worst outcomes of inaction.

vi. mitigate the risks schemes face, by enabling them to demonstrate how their offer meets the statutory obligation.

vii. To create a more equivalent experience for savers across the market, and raising the baseline of that experience across the market.

GUIDANCE

Some schemes may wish to go beyond these requirements, and we encourage them to do so. The provision of illustrative examples, possibly with case studies, or templates or process flows could be made available to help support schemes in meeting their statutory requirements but also in seeking to develop additional best practice.



	MEMBER ENGAGEMENT
PURPOSE	▸ Minimum requirements in this area would cover the information schemes should provide savers with and seek to receive from them.
REQUIREMENTS	i. Trustees would seek to obtain and check relevant member information that would inform the development and ongoing maintenance of a relevant decumulation strategy for the generality of members. This should be with specific intent to identify those who might benefit from the default retirement investment strategy. ii. Trustees would provide savers key items of information at appropriate stages in the customer journey – including the run up to the wake up pack and beyond – covering matters such as key options savers should consider, key information about what the scheme is offering, and examples of how to prepare for decumulation (e.g. setting a target retirement date, consolidating pots, appreciating the implications of any lump sum or drawdown components of the default, if applicable, etc.). iii. At appropriate stages in the consumer journey, trustees should continue to signpost to and/or encourage savers to seek guidance and advice services and remind savers that open market alternative options may be available. iv. Trustees must design a mechanism that enables savers the opportunity to opt out of following a default retirement strategy (if the member does not wish to make an active choice to select another option). Trustees should provide information and options to savers carefully and clearly, with the objective that they understand the implications of remaining opted in or taking an active choice.

PRODUCTS/SOLUTIONS

- Minimum requirements in this area would cover the construction of the default solution and the features of the products selected to fulfil it.

i. Trustees would provide a default investment strategy that operates in the interest of members.

ii. Trustees would offer or signpost to a preferred product suite that can provide members with:
   - A relatively constant income in retirement, which can be achieved via means the scheme feels most appropriate to the membership (e.g. drawdown, UFPLS, etc.).
   - Protection against longevity and decision-risk (including the risks inherent in cognitive decline).
   - Some flexibility for capital withdrawals for a defined period in retirement.

iii. Trustees would carefully consider the investment mix of the preferred product suite so that:
   - Members are not unduly exposed to market risks (in normal market conditions) that are likely to have a material impact on their retirement income (i.e. expose them to significant market volatility).
   - Members can remain appropriately invested over a long time horizon (i.e. 20 to 30 years).
   - Members are not unduly exposed to inflation risk (e.g. this will likely entail some limit on the cash or cash equivalent allocation).
   - Members' accumulated savings are not being eroded by disproportionate investment costs and charges.

iv. Trustees would limit the need for people to take complex unadvised decisions in later life.

GOVERNANCE

- Minimum requirements in this area would cover the processes schemes use to make decisions about their default decumulation proposition and approach to communicating with savers.

i. Trustees must follow appropriate processes for initial design of the decumulation proposition, as well as those related to ongoing review of the proposition. Trustees should consider the governance and administration implications of choices to provide adequate saver protection.

ii. Trustees must implement processes concerning the investment approach adopted. These would include assessment of the appropriateness of any component products and the overall solution, against the objective of the strategy, and the suitability of this strategy for members over time.

iii. Trustees would implement processes for reviewing costs and charges , in relation to the risk and performance of the investment strategy, to assure themselves that the designated approach continues to operate in the best interest of members.

iv. Trustees must undertake adequate review of third parties on which their solution is dependent, where applicable, and achieve comfort that any providers engaging with their membership are sufficiently expert, resilient, compliant, and that their charges are proportionate to the value they offer.

v. Trustees must be satisfied that members' assets will remain secure with any third party to which they are signposted.

52. In June 2020 DWP launched a call for evidence on the Default Fund Charge Cap. As part of this consultation DWP noted plans to undertake a 2020 Charges Survey. This survey will capture the full range of charges that are applied to qualifying schemes, including areas of interest for potential future inclusion. The Survey will also gather decumulation charges for both the member and the employer to provide DWP with insight into the developing occupational pension scheme decumulation market. The DWP and FCA have previously commented that they are not convinced that a charge cap on decumulation products is appropriate citing, for example, the negative impact of a charge cap on innovation and competition.

NEW MINIMUM STANDARDS - EXAMPLES

In terms of more detailed examples of the minimum standards, we have provided some examples in the table below focussed on the trust-based world, where the current FCA requirements on investment pathways do not apply. Over time we would see these as needing to be applied to the FCA regulated part of the market as well, taking into account the different approaches needed in relation to the trust based and contract based sectors.

We envisage that there will be reporting requirements (to TPR and savers) related to each of the areas addressed above (member engagement, products/solutions, and governance). These requirements need to be appropriate and meaningful, but not overly burdensome.

NEW DECUMULATION PROCESS

We want the new process to be flexible and capable of taking account of different scenarios. For example, schemes may choose to design strategies that take account of their memberships' preference for accessing tax free cash at 55, for continuing to save beyond normal retirement age or intending to purchase a flexible annuity.

The components of the proposed process are illustrated below. This diagram illustrates the importance we attach to the balance between driving consistent minimum standards across the board and the need for flexibility to accommodate different scheme's existing and future models.

Trustees implement initial design processes to decide the retirement income strategy, including product/solution suite proposition decisions. This may or may not include gathering information about members’ wider financial circumstances and needs in retirement if not already available.

Processes are established for governance and administration of the retirement income stategy. These will differ according to whether the solution is being offered in-house or not.

On an ongoing basis trustees must review the retirement income strategy including:

- Investment objectives
- Suitability
- Value offered
- Security of provider
- Overall approach

Appropriate records must be kept.

Scheme communications with membership appropriately before a member reached 55.

Communications will include risk warnings, encourage guidance or advice seeking, review of overall financial circumstances and other pension pots and include appropriate additional standard warnings.

Scheme provides appropriate decision making information.

Information will be provided about the members' options, with a clear explanation of what will happen if no active choice is taken. It will include appropriate information about the default investment strategy and the off-the-shelf/ preferred retirement income strategy, and a reminder that other products/solutions may be available elsewhere

The member chooses to take an alternative route.

Activities undertaken by the retirement income strategy provider

If the off-the-shelf/preferred retirement income strategy includes a drawdown or lump sum element additional warnings are provided to the member at the point of entering decumulation and on an ongoing basis

The member is periodically encouraged to review their retirement income strategy.

Question 9

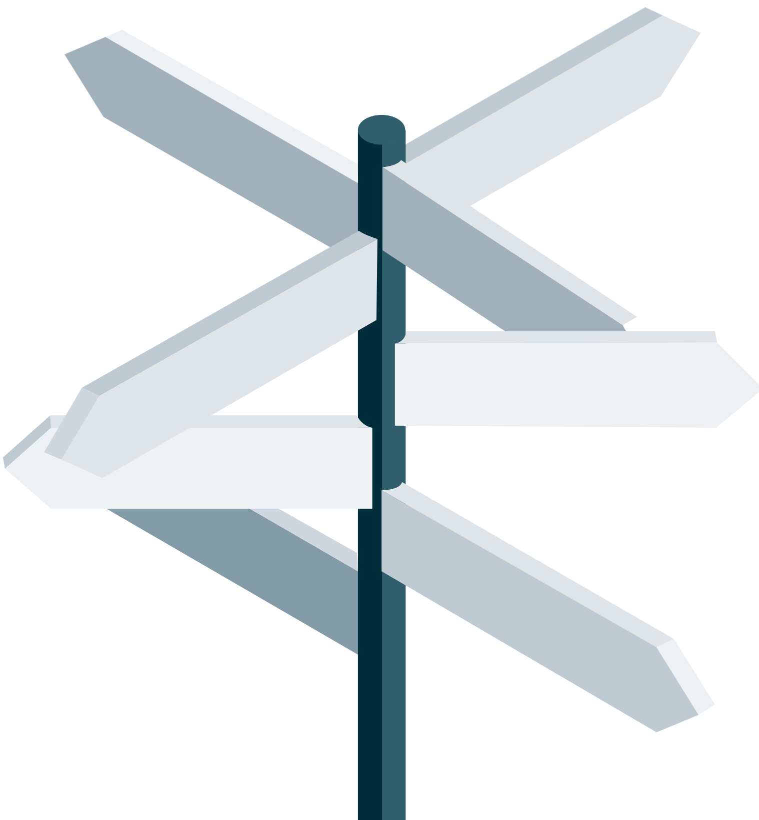
- Do you believe that the three key elements set out above – engagement & communications; decumulation products/signposting; scheme /governance processes - are the only areas the statutory obligation should refer to? If not, what other areas would it be important for the obligation to cover?

Question 10

- We have made proposals for the new requirements for trustees regarding each of the three key elements should cover. Do you believe these are appropriate and are there additional areas that should be included?

Question 11

- Can you see any disadvantages for savers, schemes, or the Government with the proposal set out above? If so, what are they?



CONCLUSIONS

The pension freedoms have opened a range of new ways in which savers can access their accumulated pension savings. This has made retirement choices much more complicated for people, most of whom would have been required to purchase an annuity prior to the reforms. The plethora of ways in which people are now able to access their savings has created significant confusion, not to mention concern, among savers. This is not surprising, given that many found retirement product choices in the pre-pension freedoms era – when options were much more limited – a real challenge.

Evidence suggests that the difficulty savers have encountered in dealing with the new options open to them has led many to disengage and procrastinate or take the path of least resistance, which ordinarily entails entering a flexi-access drawdown product in order to obtain access to their tax free cash lump sum. In other words, savers do not appear to be making decisions informed by a thorough consideration of the merits of the retirement products on offer to them. Nor do they appear to be weighing up their short- and long-term needs in the decisions they take.

This situation has exposed people to a variety of risks they simply did not encounter prior to the reforms and heightened others they did. At the same time, it has created new risks for schemes, who are concerned about the liability they may have for saver outcomes if they provide more than the statutory minimum level of support with at-retirement decisions. Consequently, the level of support provided by schemes to savers is uneven across the market, with some schemes willing to go further than others based on their assessment of the risk of doing so.

To mitigate the risks faced by savers, a new approach to at-retirement choices is required in the trust-based sector that builds on trustees' desire to facilitate better, more comprehensive, and more consistent support for savers (and to replicate this in an appropriate manner via IGCs. To achieve this, the Government needs to do more to assuage the concerns schemes have about providing such support.

We believe that the easiest and most effective means of achieving this end is to require trustees to support savers with their at-retirement decisions and give them clarity about the standards the solutions they offer will be assessed against (and for IGCs to take a similar responsibility). This does not mean that every scheme would have to offer its own bespoke product suite, but schemes would have to develop a retirement income strategy that would be delivered either in-house or via signposting to a third party.

This approach would facilitate the creation of retirement strategies for savers who choose not to engage in detail with their options. In effect, it would require schemes to deliver what research suggests savers want: off-the-shelf solutions that meet their retirement income needs.

SUMMARY OF QUESTIONS

Question 1

- Are there any risks that savers face that we have not identified in this section? If so, please specify them.

Question 2

- Do savers in trust-based schemes face risks that are any different to people in other forms of pension arrangement?

Question 3

- Do you hold or are you aware of data that shows how savers in trust-based pensions are using the pension freedoms? Is this materially different to how savers in other arrangements are accessing their pension savings?

Question 4

- What is driving the way in which savers in trust-based schemes access their pension saving? Are these drivers different to those present in contract-based schemes?

Question 5

- Do you hold or are you aware of evidence that illustrates how Covid-19 is influencing the way in which savers access their pension savings?

Question 6

- Are there any risks that schemes face that we have not identified in this section? If so, please specify them.

Question 7

- Are there other developments that have taken place in the trust-based sector that we should take into consideration in shaping our proposed decumulation policy?

Question 8

- If your scheme is implementing a drawdown solution, to what extent are you utilising the approach set out by the FCA (i.e. the investment pathways)?

Question 9

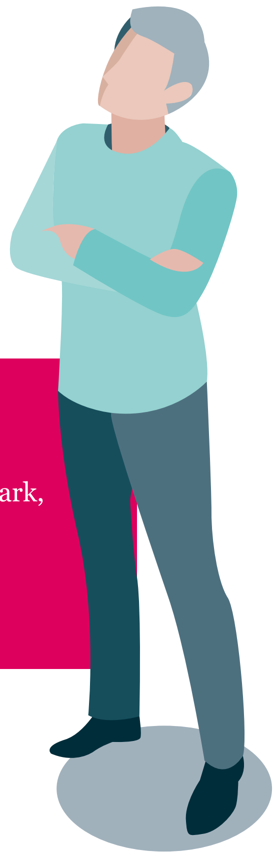
- Do you believe that the three key elements set out above are the only areas the statutory obligation should refer to? If not, what other areas would it be important for the obligation to cover?

Question 10

- We have made proposals for the new requirements for trustees regarding each of the three key elements should cover. Do you believe these are appropriate and are there additional areas that should be included?

Question 11

- Can you see any disadvantages for savers, schemes, or the Government with the proposal set out above? If so, what are they?



HOW TO RESPOND TO THIS CALL FOR EVIDENCE

Please send your responses to Alyshia Harrington-Clark, Policy Lead: Defined Contribution (**Alyshia.Harrington-Clark@plsa.co.uk**) by close of business on 4 September 2020.

ANNEX A: INVESTMENT PATHWAYS – PLSA VIEW

The PLSA believes that the FCA's 'investment pathways' represent a step in the right direction. However, they address issues of detriment arising from the purchase of drawdown without advice. This is sensible in a context in which many people are not using drawdown to provide an income in retirement, where many people also have a defined benefit (DB) income to fall back on, and, as a last resort, significant property wealth they could draw an income from.

While this is the state of the market now, we anticipate that consumer needs will change as automatic enrolment (AE) continues to evolve, pot sizes increase, and DB entitlement becomes rarer. Individuals in AE schemes are unlikely to have engaged with their pension savings, as the policy was designed to rely on inertia. It is not clear whether the FCA's investment pathways solution will be appropriate for future cohorts of retirees, who may require different levels of help and support to current retirees.

It is also unclear that individual drawdown will automatically be the best product for future generations of retirees. When used as a single option rather than in conjunction with other options, such as annuitisation, drawdown has serious risks attached to it. For example, it deals poorly with longevity risk – one of the major issues for those intending to draw an income over the long-term.

Moreover, we are concerned that the governance of the FCA's investment pathways is too weak to protect consumers sufficiently. IGCs have only limited powers to influence providers where they have concerns about a given decumulation solution. They can raise concerns directly with the governing bodies of providers, typically the board (providers are required to respond to these concerns).

If an IGC deems this response to be unsatisfactory, it may escalate its concerns to the FCA, alert relevant scheme members and employers, and/or make its concerns public[53]. Unlike pension scheme trustees, IGCs have no executive power whatsoever and, as a result, cannot intervene directly to improve the quality of a decumulation solution where necessary.

Recent research by the PLSA highlighted schemes' concerns about implementing investment pathways in the trust-based sector[54]. While there was widespread agreement with the principles behind the pathways (with some schemes designing their drawdown proposition using a similar approach), schemes were concerned about the extent to which investment pathways might limit trustee discretion in the design of investment solutions and the member journey. Trustees stated their desire to design solutions appropriate to the needs of their specific members and to ensure that defaults are designed to leave members in safe place.

53. FCA, Independent Governance Committees: Extension of Remit (2019).
54. PLSA, The Evolution of Drawdown (2019/20).

ANNEX B: SUMMARY OF KEY BENEFITS OF PLSA PROPOSAL - SAVERS & SCHEMES

BENEFITS FOR SAVERS

Findings from the ROR and recent research carried out by the PLSA show that there is significant variation in the extent to which schemes support savers with their at-retirement decisions. This is detrimental to savers in those schemes not offering significant support with retirement options. In setting out higher minimum requirements for trustees than the current regulatory baseline, the Government could ensure that all savers receive a consistent level of support with their retirement decisions.

While good practice, guidance, and voluntary standards may encourage some schemes to act, it is unlikely to create a step change in those schemes who do not act in line with best practice. By enhancing and clarifying trustees' obligations in this area, the risks that savers might experience some of the more severe outcomes in retirement (e.g. the risk of running out of money prematurely) can be mitigated.

Our approach would achieve this by addressing some of the key failures inherent in the retirement market directly. In operationalising the proposals set out in *Hitting The Target*, which encouraged trustees to create an off-the-shelf retirement proposition for those people who choose not to engage with their options, the proposed statutory obligation and supporting key elements would:

a. Enable schemes to leverage their institutional buying power to create cost-effective, high quality retirement propositions (thus addressing the information asymmetry and purchasing power issues savers experience);
b. Facilitate the creation of retirement propositions for the mass market that meet the changing needs of savers over the course of retirement (thus addressing the longevity, market, and inflation risks savers face); and
c. Help savers to achieve better retirement outcomes than they do at present by addressing the decision risks and the information asymmetries inherent in the market today.

These actions would undoubtedly result in better retirement outcomes for the vast majority of people than is the case today without requiring them to develop sophisticated financial skills or engage with perhaps hundreds of pages of information and guidance.

BENEFITS FOR SCHEMES

Were the Government to require trustees to offer a consistently higher level of support via the creation of a new statutory obligation, it would remove significant barriers that currently impede trustees from acting. These barriers fall into two primary categories: risk-based barriers and practical barriers.

Research indicates that trustees are often reluctant to support savers beyond the statutory minimum because doing so would expose them to a number of risks, with litigation risk being the most pressing concern. Trustees worry that they might face legal consequences if they are perceived not to have acted in the member's best interest. They are also concerned that legal action could result if members believe trustee signposting did not engender the best possible outcome.

Some PLSA members have highlighted the fact that scheme rules can prevent some trustees from acting to support savers in the way that we propose. A statutory obligation would help remove practical barriers of this sort. It would facilitate potential statutory overrides that would enable trustees to develop appropriate solutions for the savers they serve. It would also redress the balance of risk – whereby some legal advice would caution against acting in this space despite the inherent risks in remaining inactive.

Under our proposal, the sort of operational and financial risks inherent in offering retirement products to people directly would be mitigated by the possibility of schemes signposting members to some or all of the products that form part of a schemes core decumulation proposition.

This would have the added benefit of working in the vein of current best practice. A number of single employer occupational schemes have already formed partnerships with master trusts, which have the scale and sophistication to offer the full range of retirement options[55]. Under these arrangements, savers are signposted at retirement by their accumulation provider to a designated master trust.

OTHER BENEFITS

In mitigating the risks to schemes, our proposed approach would help to stimulate innovation in the retirement market to meet the needs of savers, which is likely to result in better retirement outcomes for the mass market. This would help to protect the integrity of the system as a whole and mitigate the risks to government identified above.

Our approach would enhance the role of IGCs and trustees, enabling them to be more involved in helping savers to transition from the accumulation to the decumulation phase. It would allow schemes to deliver solutions tailored to the circumstances of their members – something that simply replicating the FCA's investment pathways in trust- based regulation would not necessarily achieve.

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