PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DC DECUMULATION: FINAL RECOMMENDATIONS

Nearly three quarters (71%) of savers in defined contribution (DC) funds want help to choose how to access their pension, including some wanting to be guided by their scheme to a ready-made retirement income option.

The PLSA asked 2,000 pension savers and retirees about their current and future plans for drawing their pension. A majority of workplace savers with DC pensions who were yet to retire said they knew they would have to make a choice as to how to take their money. But 30% either didn't know about or understand their options, and only 28% had a clear plan about how they would take their money.

WE RECOMMEND A NEW FRAMEWORK TO SUPPORT SAVERS WITH DECUMULATION

The Government and regulators should introduce a new regulatory regime, which includes:

1. The creation of a new statutory obligation for schemes to support their members with decumulation decisions.
2. Three key elements to the support:
   a. Member engagement and communications
   b. Providing or signposting to decumulation products
   c. Scheme or governance processes relating to the design or selection and the ongoing delivery of the above.
3. A set of minimum standards for each element.
4. Guidance to help schemes to deliver the three key elements and to work within the standards.

WHAT OUR APPROACH WILL ACHIEVE

WE'RE SETTING OUT THESE MINIMUM REQUIREMENTS TO:

- Give more support to savers who do not engage with their options – applying the lessons learned from automatic enrolment and the open market option – as well as supporting freedom and choice for those who do.
- Enable the development of products that help manage risks for savers as DC savings grow and people are more dependent on retirement incomes from them.
- Harness the duties and responsibilities of trustees and independent governance committees to demand better solutions for savers.
- Ensure all savers are guaranteed a good experience, while supporting market innovations that would give them an even better one.
- Help manage risks for savers and schemes.

OUR APPROACH WILL HELP MANAGE THESE RISKS

RISKS FOR SAVERS

- *Longevity Risk:* People don't know how long they will live and therefore how much to spend.
- *Inflation Risk:* Inflation can reduce the value of pension pots in the run up to and during the first few years of retirement.
- *Investment Risk:* Market volatility affects savers.
- *Decision Risk:* Decumulation decisions are complex. Without regulated financial advice, savers bear the consequences alone.
- *Information Asymmetry:* Savers tend to be poorly informed about retirement products.
- *Purchasing power:* An individual may pay more for retirement products alone than if they were purchasing as part of a collective.

RISKS FOR SCHEMES

- *Information Risk:* Trustees are concerned about whether it is appropriate to support savers' decumulation decisions without having the full information on their circumstances.
- *Litigation Risk:* Schemes and trustees fear legal action if they provide more comprehensive support but savers then feel trustees have not acted in their best interests or have not delivered the best outcome. Employers are also concerned that trustees may be liable for savers' decisions based on trustee support.
- *Operational risk and financial cost:* Providing decumulation options brings additional complexity and administration and governance processes.
- *Funding Risk:* Trustees are wary of offering products that offer guaranteed income because of the associated high funding requirements for schemes.

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