

BUILDING ON THE PENSION FREEDOMS: GUIDED RETIREMENT INCOME CHOICES

2021

PLEASE CONTACT THE TEAM AT RUARI.GRANT@PLSA.CO.UK FOR FURTHER INFORMATION



THE PROBLEM

Until 2015, accessing your pension meant – for most people – converting a pot of money into a guaranteed income for life. Since then, however, savers, on reaching 55, have had far more freedom over what to do with their pension. With this increased flexibility and choice though, came increased responsibility, as they were suddenly exposed to an array of risks surrounding what for many, will be the biggest financial decision of a lifetime.

With most people having accumulated a pension through inertia, i.e. a lack of engagement, few are therefore equipped to make such important and complex decisions, balancing longevity, inflation and investment risks to ensure they enjoy a comfortable retirement without running out of money. Without expert support, many people unsurprisingly risk taking bad decisions for their finances. For instance, FCA research shows that in the six months to March 2020 a third of people who accessed their pot withdrew money simply to put it into cash, inevitably losing out on growth had they left it invested or taken drawdown.

Some support is already on hand, through professional advice and guidance services, and we are very supportive of both of these, especially those available to everyone such as Pension Wise and Money Helper. These require an active decision from the retiree to seek help though, and they also have capacity and cost constraints, so as research bears out, they inevitably only assist a small proportion of people. Indeed 64% of pensions accessed for the first time in 2019-20 were done so without the help of an adviser, so there is a clear need for consumers to get more assistance at this crucial life stage from their product providers. This is an urgent problem as more than 4 million working baby boomers have the least time to save more for their retirement, or recover poor choices they have already made in accessing their pension early, and targets for millions more people to understand enough to plan for their retirement in the last year.

THE SOLUTION

Our mission at the PLSA is to help **everyone** achieve a better income in retirement. While we welcome the progress the FCA has made with its investment pathways, they are limited in scope and duration, and there is still a considerable disconnect between the risks (faced by savers) and the knowledge and expertise (possessed by providers). As such we would like to see more savers getting fuller support from their providers in decumulation, across **both contract and trust** based sectors.

That is why we are now calling on government, regulators and the industry to adopt the PLSA's **Guided Retirement Income Choices (GRIC)**, to support retirees with these complex decisions, irrespective of what kind of pension or provider they have. The key elements of the framework are:

- ▶ To guide and inform savers – a saver engagement journey, informed by behavioural economics, and deploying a 'path of least resistance' that enables schemes to signpost savers to a retirement solution either inside or outside the scheme.
- ▶ To deliver well-designed solutions – a set of minimum product standards that require schemes, who are better able than savers, to trade off the numerous and complex risks faced at retirement.
- ▶ To support schemes to deliver the framework – key governance minimum standards to underpin the design and delivery of the above elements.

The GRIC is firmly rooted in policy and solution design underpinned by strong governance that we consider to be improving the retirement experience for savers. Many savers will have accumulated a pension through the inertia of automatic enrolment, so it is crucial those who do not engage with their options have access to retirement solutions which cater for their income needs while managing the risks associated with these decisions. We estimate that more than 40% of retirees will be relying on their DC saving for a greater proportion or their only income in retirement over time, and median pot sizes will grow significantly in the next 20 years.

This means leveraging the expertise possessed by their pension providers to give them access to a range of products catering for their needs, and defaulting them into a suitable product mix where they do not take active decisions themselves. Research suggests savers want their scheme to help provide them with solutions that are either 'do it for me' or 'do it with me'.

This may simply mean providers signposting customers to a preferred set of decumulation products suiting their circumstances, or it could mean some firms innovating and offering new all-in-one blended products.



WHAT WE'RE DOING ABOUT IT

There are providers who already offer this level of support to scheme members. Some are providing guidance to retirees over their options, whereas others in the market already offer innovative blended products that cater for the need for both guarantees and flexibility.

Many of these are PLSA members and over the coming months we will conduct research across our membership to find out how their solutions work, discover any difficulties in implementing them so far, and crucially, gather evidence on consumer uptake and outcomes.

Through this process we want to encourage those in the industry already providing these or similar services to share best practice in order to help the whole pensions sector embrace any future new framework.

We are conscious, though, that there are many barriers to implementing GRIC, and, for example, that the proximity to the FCA's 'advice-guidance boundary' may deter certain providers. This is why we are calling for collaboration on this initiative, as it is only with **input from government and regulators, in addition to the industry**, that the aims will be achieved.

BACKGROUND

Our vision for guided at retirement outcomes (*Hitting the Target*, 2018) was in the context of the radically revised policy and practice in at-retirement after the pension freedoms announcements in 2014. In July 2020 we published our *DC Decumulation: Call for Evidence*, a period marked with dynamic discussions and debate. We ran 7 roundtables including schemes, advisers, providers and consumer representatives and received 25 written responses. The input and views reflected the breadth of our membership, wider industry and consumer representatives. And the clarity of focus on the saver was prominent throughout. We published our *Final Recommendations* in October 2020.

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Sources

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