PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

DWP CALL FOR EVIDENCE: HELPING SAVERS UNDERSTAND THEIR PENSION CHOICES

PLSA RESPONSE

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CONTENTS

ABOUT US

The Pensions and Lifetime Savings Association is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

INTRODUTION

1. With Automatic Enrolment (AE) having successfully introduced millions of workers into pension saving for the first time, attention must now turn to how we can best support those individuals when the time comes to access their savings, and so the PLSA welcomes this Call for Evidence (CfE).
2. Reforming decumulation is a priority policy area for us in 2022 and we will continue to work closely with government and regulators, as a successful framework on which to base retirement support can only be achieved through a coalition of policymakers, industry, and those that represent savers themselves.
3. Since the pension freedoms, the PLSA has carried out several rounds of industry consultation, with refinement, roundtables and written submissions to establish the risks faced by trust-based savers and the current help on offer to them. This has informed our advocacy for a comprehensive retirement framework, the Guided Retirement Income Choices, which would implement a requirement on trustees to support their members with a support and products underpinned by common standards, so that savers can rely on the availability of safe and effective solutions.
4. Over the first half of 2022 we have been researching the state of play in the retirement market for trust-based schemes and the findings from this work have informed our submission to this CfE. We have also held a member survey to gather views on the specific areas addressed by the CfE, to which we have had responses schemes representing around 3 million savers. Finally, we held two roundtable meetings to discuss the issues raised, one with our members, and one with a particular focus on consumer perspectives on retirement. This latter was attended by DWP's policy team, in order to provide background information on the CfE, as well as representatives of a number of consumer organisations and consumer finance and retirement experts.

EXECUTIVE SUMMARY

The problem

5. In 2015 the Pension Freedoms introduced flexibility for people accessing their pensions. While a positive development for many, with greater product choice, the lack of a requirement to purchase a guaranteed income means all the responsibility of making a pension endure shifts to the individual. Unfortunately, data from various sources demonstrates that many retirees lack both the understanding of what is a complex set of decisions, and the necessary support to guide them through them, and this results in sub-optimal outcomes. For instance, according to FCA data, in 2020-21, 49% of drawdown withdrawals were made at a rate of over 8%[1], which is double the sustainable level defined in Fidelity International's Retirement Savings Guidelines white paper[2].
6. This figure may be slightly skewed by those who are currently withdrawing in full (as automatic enrolment has not been in place long enough for them to accrue anything other than a modest pot which will supplement their other retirement income), but it is nonetheless a higher rate of withdrawal than one might expect if more people had access to support, including financial advice and guidance. Such support is clearly therefore going to need to play a greater role in the coming years and decades as more people retire with DC savings on which they will rely solely for their retirement income and are faced with these complex decisions.

Current options

7. **Financial advice** will have a role to play, however we acknowledge that it is likely to remain out of reach for a large segment of the population. We therefore support free guidance services, such as the **Money and Pensions service** (MaPS) and while we will wait to see whether the 'Stronger Nudge' intervention has the intended impact of increasing uptake of this service, it is crucial more retirees make use of it than the 22%[3] who have currently.
8. As the CfE rightly acknowledges, the FCA has made some first steps in the direction of retirement support, including wake-up packs and **investment pathways**. We do believe these to be positive moves in terms of avoiding the very worst outcomes, such as individuals withdrawing pensions and inadvertently investing in cash. However, beyond these short-term protections, **we do not believe further information or pathways alone provide adequate support for savers over the course of a retirement** which could last decades. Over such a period people's spending patterns change, and so too do their income needs. Pathways only address people's needs over a five-year horizon, with four very generalised options, while no consideration is given for other circumstances or wealth held.
9. As such, we only view pathways as a starting point for designing a more comprehensive framework for support to the millions of savers in trust-based schemes. And it is much of this

[1] https://www.fca.org.uk/data/retirement-income-market-data-2020-21
[2] retirement-savings-guidelines-sept-2020.pdf (eumultisitev4prod-live-eb461540d2184169bb77db2b062d9318-f268f99.s3-eu-west-1.amazonaws.com)
[3] Freedom and Choice.pdf (actuaries.org.uk)

slice of the population, many of whom will have been auto-enrolled, which will have minimal engagement with – and understanding of – their pension.

10. In our view, more support is needed, for all pension savers, irrespective of what kind of scheme or governance structure they happen to be saving within, in order to avoid member detriment. This can occur from numerous sources, from scams to withdrawal decisions with punitive tax consequences, or simply by withdrawing at a rate which will see retirees run out of money. We believe a regulatory regime needs to be in place so that savers avoid these pitfalls.

Our proposal - GRIC

11. Over the past three years, and informed by several rounds of consultation with industry, the PLSA has advocated for a Guided Retirement Income Choices (GRIC) framework. Currently, all the knowledge and expertise over retirement options lies with the schemes and trustees, and so we would like to see this insight leveraged for the good of the saver. While in the context of this CfE we see GRIC as solution for the trust sector, we also consider it would provide a deeper and more thorough level of support for those in contract-based pensions.
12. In essence, **GRIC would require trustees and those overseeing schemes to offer guidance to their members, and to offer a blend of retirement products which should provide for their differing needs through retirement**. There is growing industry consensus that for many people, it will be suitable to allocate some of the pot to drawdown to provide flexibility of income in the earlier part of retirement, and that the security of income offered by an annuity would better suit their needs in their latter years. This is borne out by LCP research[4] which indicates that around age 75, people's preferences tend to switch from drawdown to a guaranteed income.
13. Therefore GRIC encourages a form of support which would engage members to consider a combination of products, either provided by their own scheme, or signposted to from their scheme.

[4] https://insight.lcp.uk.com/acton/attachment/20628/f-7623ab84-bb1a-4d53-8036-7472a22adeed/1/-/-/-/-/is%20there%20a%20right%20

Market developments

14. Over the first half of this year, we canvassed our members to establish the extent to which the industry is developing solutions which deliver these features, and we have just published the findings in our report, Retirement Choices: the Evolution of Products and Support.
15. Overall, we are encouraged by the findings that **many of the large Master Trusts and insurers are now either offering or developing a range of in-scheme retirement options** for their members, and these generally centre on the principles above, namely providing greater guidance and a product mix.
16. In terms of engagement, most of those canvassed begin contact with members early, often between the ages of 40 and 50, using a variety of opportunities to build contact and trust between member and scheme. These include updating contact details, named beneficiary details, wake-up packs, as well as more in-depth information sessions and webinars for members. As members get closer to retirement they are often then given the option of online modelling tools, where they can 'play around' with their pot, allocating different portions to different retirement needs, with guidance on each element, to see what may work for them.
17. In each product, the models differ, with some Master Trusts basing the solution around multiple drawdown pots with different targets (including a sustained income one), some with a ringfenced pot for an annuity purchase at a later date, and some with deferred annuities. However the common theme is that the different product elements offered aim to address those changing needs discussed above.
18. Those saving within these Master Trusts and insurers are therefore gradually receiving a greater level of support, one which will be increasingly necessary as retirees have less DB wealth to rely on. The one large gap we perceive is thus those saving into schemes, which range from Nest, to small single-employer trusts, which are not able to offer such in-scheme support or product development. **Savers in all schemes deserve to receive similar support and access to product choices**, to help them steer clear of the worst outcomes, which can include both over and under drawing, as well as simply poor longer-term choices which see funds eroded by inflation, rather than staying invested where funds will not be accessed for a long period.
19. Therefore, on grounds of fairness, **we would support the ability of Nest to provide a fuller range of products** to its customers, including drawdown. Regarding smaller schemes, would like to see trustees signposting members to an external scheme where a full suite of blended products and guidance is on offer, and both the associated communications and products would be governed by a set of **common standards**.
20. We are aware of various barriers to adoption, including schemes' reticence to provide information which may stray close to the advice-guidance boundary, while at present it is effectively 'safer' for trustees to provide nothing than to seek to help their members at retirement, for fear of litigation where a member feels they have been poorly directed. For this reason, it may be necessary for a new obligation requiring such support from schemes. Not only would this mean all savers have the guidance available that they need, but it would also – dependent on secure governance - protect trustees from the risk of litigation should retirees decide they had been wrongly signposted at a later date.

21. The PLSA is therefore fully behind the DWP's intentions to **institute a more comprehensive framework to help savers access their pensions**, and we believe this will be best achieved through a joint approach with industry and savers. With DB in decline and DC growing, the need for this is only going to increase, so now is the time to develop an informed and well-cured guidance and product mix to support them.

CFE QUESTIONS

Question 1:

a. Do you feel that the information you receive from your pension scheme is enough for you to make informed decisions about using your pension savings, and if not, what do you think would have helped?

22. Our GRIC proposal is the result of comprehensive consultation we carried out, culminating in 2020. This research revealed that 71% of workplace savers want help to decide how to access their retirement savings, and according to the DC Investment Forum 2019, 77% want their pension provider to offer them a ready-made solution. This is in large part due to the complexity and range of choices now available, and the importance these decisions have.

23. The views of the PLSA membership are mixed on whether or not savers' current experience of scheme information is sufficient to make informed decisions, and this is unsurprising given the wide range of saver circumstances, and differing and evolving support and solutions available from schemes. Our survey found that 45% of our members believe their members feel '*moderately well supported*', and 27% believe their members only feel '*a little supported*' to make those crucial retirement decisions.

24. This is in part largely explained by the range of support on offer. For example, one large Master Trust, which offers considerable online and phone-based information, told us that 75% of their members who had accessed their pension were positive about the help they'd received. This is compared with one single-employer trust scheme, which offers very limited support, where many members have little idea what is best for them.

25. In terms of what additional support would help, this again depends on the demographic of member. Some Master Trusts already offering online guidance told us their members would like information to be more tailored to their own circumstances – "personalised guidance" for instance – while others highlighted that more disengaged members simply want an income from their savings and would value being channelled towards this option with as little engagement/decision-making required as possible.

26. Arguably the focus of new policy should therefore be on those savers for whom increased information will make little difference, and who fundamentally require an income product from their pension, but with little involvement in the process itself. Additional guidance will assist a select proportion of savers, but for this population, support needs to be more structured, providing a path of least resistance from their accumulation product (which they likely entered by default), into a well governed solution which allows access with minimal engagement.

b. Do you feel that this information is clear and concise, and if not, how could it be improved? On the whole, PLSA member feedback across numerous schemes indicates that pension communications across the industry remain overly complex, technical and composed of too much jargon for many savers to engage with.

27. For example, one member told us they had carried out research on their Annual Benefits Statements and that there was a desire from savers for more infographics and less text, as well as for more consistency of terminology across the industry. While we are aware that many organisations have made efforts to simplify their own communications in recent years, and are supporters of the ABI's Jargon Buster, but this does not ensure consistency, so when a saver may have multiple pensions with multiple providers, it would be helpful if the language used by each was comparable.

28. Achieving consistent and understandable terminology across the industry is a challenge, despite various initiatives across different organisations in recent years to simplify it. State Street and B&CE raised this as an issue as part of their research in 2016[5] but six years on, saver understanding or different options in decumulation remains poor. Therefore we believe it requires a coalition between all stakeholders: industry, schemes, government (including DWP, HMRC and HMT), regulators and consumer bodies to consider more consistent use of everyday language to describe the different choices people have, and this may be an area the recently launched Pension Attention campaign may consider as part of its workplan.

Question 2:

As an occupational pension saver, do you expect your pension scheme to offer you guidance and support on the options available to you when accessing your pension, and if you do, what do you think that should look like?

29. As above, this will be a difficult question for a saver to answer comprehensively because of the wide range in levels of saver engagement and understanding.

30. Our view is that there is a large section of the market which will not access financial advice, but which will want some level of information and guidance with which to help select retirement products. This is the segment that value "personalised guidance"; many people do not like to be classified as "average" or put into a "best fit" option, so schemes and providers need to be able to personalise the information presented to them, without it necessarily becoming a recommendation.

[5] https://bandce.co.uk/wp-content/uploads/2016/06/15805_1_SSGA_TPP_Pension-personalities-Part-2.pdf

31. Clearly, the more the support becomes personalised, the closer it becomes to the advice boundary, and as such many unregulated organisations will be reluctant to risk approaching this line for fear of regulatory repercussions. We have heard from numerous schemes that a clearer definition of this in the context of freedom and choice and decumulation support, as well as more generally, would ultimately be of great benefit to savers. This is because in many cases, schemes want to satisfy their members' requests for more personalised guidance, and if those schemes felt able to provide this, more of the worst outcomes could be avoided.

32. Interestingly, and while we are conscious this CfE relates to the trust sector, members have also told us that the support savers want does not differ depending on what type of scheme they are in. One provider told us that approximately 95% of both their contract and trust customers believe their scheme should be providing support and guidance services.

Question 3:

Thinking about other potential sources of information and support, aside from your scheme, who do you see providing these and what do you expect from them?

33. Savers seek information and support on their pensions and retirement options from a variety of sources, but outside of their scheme, some of the most significant include the employer and friends/family.

34. Friends and family will undoubtedly always provide a significant level of experience-based advice for many people, though it is worth highlighting the potential risks of this, given people's circumstances vary, and each individual's views will often be heavily influenced by specific good/bad outcomes they may have had.

35. Employers can often be seen as a more reliable source of information, and given the trust that exists between employees and employers in many organisations this is an avenue which could benefit many. However it will often only be larger employers with the resources to provide such support, while many smaller businesses, which perhaps only enrol workers in a pension to satisfy their legal obligations, will remain unlikely to offer this.

36. An alternative option some of our members have floated includes IFA panels being provided by schemes. While regulated financial advice will ultimately remain the preserve of a minority of the market, we are aware of a number of larger schemes, which due to their scale are able to negotiate competitive per member rates with advisers, and this may make advice affordable for some savers for whom it otherwise wouldn't be. Such panels remain more common in the DB market, but as DC assets grow, we may see more schemes able to offer such services. For smaller schemes which lack the scale to institute such an agreement, we may begin seeing more syndicated and centralised services offering access to advice.

Question 4:

What information does your scheme currently provide to its members in the run up to retirement? When and how do they receive this?

37. During the phase of engaging with our members to inform our recent Retirement Choices paper, we came across an array of communications and information provided to scheme members at different points of the saving and retirement journeys. These vary, but in the main, those Master Trusts and providers who offer a more comprehensive retirement solution tend to contact members via both small nudges and prompts as well as more in-depth offerings and tooling.

38. There is a general consensus across our members of the need to engage savers' interest and consideration in their pensions early, a significant time prior to their retirement date. This does not necessarily mean detailed information and guidance before, say, age 50; rather, we are seeing smaller nudges designed to get people thinking about their retirement plans, which typically include requests to update contact details, nominate a beneficiary, and add a retirement date. In addition, while technically only FCA regulated providers must send wake-up packs from age 50, some schemes are using this as an engagement tool and send them earlier, from age 45.

39. Other popular sources of information schemes offer include member seminars with general retirement planning information, and some – including one single-employer trust scheme we spoke to – offer a free 1:1 advice consultation. This does not reach the point of personal recommendations, but seeks to prepare savers for the decisions they will need to consider, and they have the option of progressing to full financial advice at a discounted rate through their scheme.

40. However the majority of the information schemes provide to their members is through dedicated microsites. Across various Master Trusts and providers these present savers with information on all their product options – which as we discuss elsewhere in our submission – are growing in terms of complexity and their ability to be tailored to specific needs. These microsites also include online modelling tools which allow people to experiment, allocating different portions of their pot to different products (e.g. cash, drawdown, annuity), to see what division could suit their plans while allowing for a sustainable income for the duration. Member journeys through these tools are also often structured in such a way as to encourage consideration of all aspects of retirement, in order to avoid an undue focus on, for instance, the immediate cash element.

41. Schemes also build certain warnings into these online portals; these include various considerations, from general prompts to speak to PensionWise or an IFA before making final

decisions, to specific warnings such as the risk of running out of cash if a likely unsustainable drawdown rate is selected.

42. One evident difference in information provided to scheme members is between what is on offer to Master Trust members, as opposed to members of single-employer trusts. As discussed in our exec summary, many of the Master Trusts are developing bundled solutions for their accumulation members, which includes the communications above. However, members in smaller schemes will often miss out on this level of support, unless their scheme has a signposting arrangement in place with a Master Trust, and so we consider this to be a key area for future development, so that all savers can access a suitable depth of information.

Question 5:

If your scheme has received any feedback from members, or has results from any ‘test and learn’ activity relating to pre-access communications, what have you learned?

43. For insights on member feedback please see responses to questions 1-4. We have encouraged our members to respond to DWP directly on this to share their activities and learning.

Question 6:

a. What information do members need in the run up to retirement such as from age 40-50?

b. What information do members need from age 50?

44. As per our response to Q4, schemes’ approaches to retirement communications vary, however in general the engagement pre-50 tends to have less detail and simply be designed to prompt people to begin considering their retirement plans. Generally communications we have seen tend to then ‘ramp up’ as the point of retirement nears, providing more information to savers, as well as access to online tools.

45. However, apart from the depth of information provided, which will naturally become more detailed nearer to retirement, arguably the content provided pre- or post-50 need not necessarily differ. Ultimately, the purpose of such communications is to encourage savers to consider their retirement finances, and so the sooner they understand their options and products available, the better the outcome.

46. The decisions retirees are faced with are complex and must take account of numerous factors, including other sources of income, likely budgeting/spending in retirement, which may be estimated with tools such as our RLS, considerations of social care costs, as well as whether an individual may wish to leave money to future generations or a spouse.

47. As we noted in our response to the Work & Pensions Select Committee's 2021 Pension Freedoms Inquiry[6], there is little evidence that retirees consider the length of their retirement, income requirements or likely pension income until the point of retirement and – when they get there – systematically underestimate their own potential life expectancy.

48. Therefore, with this combination of complexity and widespread lack of understanding of retirement planning, our view is that the key is the information being provided in accessible and straightforward formats, rather than at specific ages. Examples of this include some PLSA members who provide all information on their microsite in 'plain English', avoiding product terms such as 'annuity' which may at best be poorly understood, or at worst have negative connotations which impair decision-making.

49. Decision-making on the approach to retirement, and at-retirement, is complex but also incredibly important. Retirees' needs will likely change later on in retirement, however it is at this point when preparations can be made for that point, effectively pre-empting a point when cognitive decline may inhibit good outcomes. As such the information and guidance at this point must be relatable, and a number of our members present this content in terms of our Retirement Living Standards, which contextualise different retirement income levels with spending in different areas.

50. For example, one Master Trust has based its retirement tool on their existing tools for savers in accumulation. This is based on the RLS; when a member enters decumulation this same tool effectively flips around to show how much money is left, and gives access to useful features including budget planners.

Question 7:

What other support, aside from the information you have already told us about, does your scheme currently provide to members

- at the point at which they access their pension?
- after they have accessed their pension?

51. We cover the timing of retirement communications in our response to question 4, however it is worth noting the following results from our member survey:

[6] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2021/Work-and-Pensions-Select-Committee-Five-Years-on-from-the-Pension-Freedoms-Accessing-pension-savings.pdf

- The vast majority of communications are focussed in the years before retirement, with 9% timed pre- age 50, 41% at age 50, and 18% at or just before age 55. Such communications tend to include reviews of investment options a decade out from retirement, annual statement, as well as other methods mentioned in our submission. This is different from, for instance, DB scheme, which typically only begin to engage members a year or so before retirement.
- These points of focus are supported where members themselves would value more support. 59% of schemes told us their members would like more pre-retirement communications, compared to 14% post retirement.

52. In terms of the standards, we believe communications should comply with, the four points in this figure represent the guidelines we have suggested as part of our GRIC proposal in order to ensure quality and consistency across scheme information provided.

i. Trustees would seek to obtain and check information on the generality of members 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 starting early in and continuously throughout the appropriate stages of the consumer journey – including the run up to the wake up pack and beyond – using industry standard accessible language 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 to elect to take an active choice outside of the path of least resistance. Trustees should provide information and options to savers carefully and clearly, with the objective that they understand the implications of not taking an active choice.

Question 8:

a. What income options or products, if any, does your scheme currently offer members when accessing their pension savings?

53. While the solutions on offer to scheme members still vary, there is a broad consensus among our members and the wider industry that for many retirees, a combination of flexibility, cash and security of income will be most appropriate, while a smaller number of people may want to ringfence a portion of the pension for other purposes, e.g. inheritance or social care provision.

54. Our view is that the principal function of a pension is to fund retirement, and so the priorities must be an income to support someone until the day they die, with the supplementary ringfenced pots mentioned above a second order consideration. Fundamentally, between annuities and flexi-access drawdown, the products already exist to cater for the principal needs; the challenge as we see it is in packaging them in a clear and understandable manner so that customers can access the benefits of each.

55. As we note in our recent report, this is what a number of the Master Trusts and insurers are currently developing with the tools we discuss in our response to Q4, in order to provide an accessible and understandable route for people to take to select the product mix that works for them. Unfortunately, however, most single trust schemes will not offer such comprehensive solutions, and this is why we would like to see an obligation on schemes to support their members, with trustees of such schemes signposting to products elsewhere. Indeed, according to our member survey, while 31% provide no products but do signpost to products elsewhere, and 32% of schemes will consider doing so in future, 26% still have no plans to provide either products or signposting support, hence the need for an obligation.

b. Do these options or products differ depending on pot size?

56. Most of our members we spoke with when writing our recent report highlighted that the vast majority of retirees with small pots, e.g. under £10k, either cash out entirely, or transfer the pot to another, larger pension they may have elsewhere. Therefore there appears to be a naturally occurring threshold pot size for retirees who would use the type of comprehensive bundled solutions discussed in our report; indeed one member told us their average pot size using their new retirement solution is £60k.

57. It is also worth bearing in mind that many of these solutions are either very new, or even not yet developed, and so it will naturally take some time for some of them to assess demand and consider whether options offered should differ according to pot size. However, certain Master Trusts are already intending to limit these products to pots over £30k.

58. We consider that a more important factor – in terms of providing access to these solutions to as many savers as possible – is not pot size, but overall scheme size. As we discuss elsewhere, members of many small schemes do not have these in-scheme product choices; however schemes below a certain size may also find it difficult to signpost members elsewhere. Indeed, one Master Trust which does have decumulation-only arrangements with external schemes told us they do include pot sizes in their overall assessments and that the smallest scheme they work with still has assets of £100m. Similarly, one single employer trust scheme, with around 5000 members, told us they have been advised they are too small for a Master Trust to accept large numbers of decumulation transfers.

Question 9:

If your scheme offers lifestyle strategies or a pathways type solution for decumulation, what take-up have you seen?

59. The decumulation solutions and investment strategies we discuss in this submission and in our recent report are all in either late stages of development, or have only been available for customers for a short period of time, and as such, there is very limited data on take-up to date.

60. It is worth bearing in mind that most of those providing these solutions are auto-enrolment schemes, which on average have a relatively young membership, and thus few members currently at or approaching retirement. Meanwhile, many older members of such schemes are likely to have DB entitlements from earlier in their careers, and so these members will often simply fully withdraw small pots they have accumulated more recently in a Master Trust. As such we would expect take-up of non-cash based solutions to increase over the coming years and decades as more people retire with more substantial DC savings.

61. Especially limited so far, across all the schemes we've spoken to, is the purchase of annuities for later in retirement, and this is for similar reasons, with existing DB savings often playing the same role as an annuity in providing a secure income. For those wishing to derive an income from their pot in the future we would expect annuities may become a more attractive proposition. Since the pension freedoms, annuities specifically have also seen a significant decline, exacerbated by a low interest rate environment which has made for unattractive product pricing. As such it may well be that as inflation continues to prompt rises in interest rates, improved annuity prices begin to attract more customers.

Question 10:

If you have already introduced income options or products such as investment pathways, have you received any feedback from members, or conducted research to assess their effectiveness? If so, what conclusions did you reach?

62. Several PLSA members have introduced investment pathways for their trust-based pension savers. On the whole this is due to the efficiency of aligning with their contract-based book of business for which pathways are now mandatory, as well as for reasons of fairness so that all customers have consistent retirement options.

63. However, there are areas of imperfection, especially with regard to the trust sector, both in terms of practical implementation and benefits for savers. Some schemes have told us that the pathway rules are overly prescriptive and that technical details within them prevent them from instituting features which might allow for greater saver benefit. In an effort to keep pathways consistent between different schemes and providers, they are too narrow, and our members tell us that this means that few savers' needs and circumstances fit within one pathway; most people need a combination of features and products, and the current pathway regime does not allow for this. These problems are borne out by the findings of the Behavioural Insights Team

report[7] into the Investment Pathways for the FCA, which indicated that where complexity exists in an individual's pension circumstances, the pathway framework should "Consider providing additional support for consumers who have specific pension needs", in order to avoid savers being defaulted into a sub-optimal pathway.

64. Furthermore, a number of our members have highlighted that while a high percentage of savers move into a pathways solution where it is available, the vast majority of these do so simply in order to access their tax-free cash, rather than because that pathway might offer a suitable longer-term solution.

Question 11:

Should Nest be able to deliver the full range of income solutions for members unwilling or unable to access decumulation options without support?

65. We are aware that as the UK's largest Master Trusts, Nest would like to be able to provide a fuller range of decumulation products for its members than it is currently able to do. The basis for our position on decumulation and the rationale for our GRIC proposal is that a saver's retirement support and options should not be dependent on which scheme they save into – something which will often have been chosen by their employer in the context of occupational pensions. Therefore, if our intention is that comprehensive retirement solutions become available, in-scheme, for all savers, a continuation of Nest's inability to offer drawdown would constitute a disadvantage for their members. As such, we would support Nest's ability to fully support their savers in retirement, and among members who responded to our survey, this view represented the majority, with 52% supporting Nest's ability to provide retirement products compared to 10% against it.

66. We do however believe the industry will need assurance on aspects of Nest's expansion into decumulation more generally, including consideration of tests such as:

- Maintain the dynamic effect of employer and saver choice in the market, while protecting and maintaining the financial sustainability of market participants for the benefit of savers
- Ensure no negative impact of any changes on the sustainability of the AE system over time.
- The regulators' respective approaches to Nest's retirement solutions
- Clarity on the structure of proposed costs and pricing.

Question 12:

[7] https://www.fca.org.uk/publication/research/increasing-comprehension-of-investment-pathways-for-retirement.pdf

What products or lifestyle strategies should providers give?

67. During the member roundtables we held during the CfE period there was broad consensus that savers want a secure income from their pension, and that supplementary flexibility is a second order priority. One of the largest Master Trusts told us that close to 100% of their members would prioritise an income over receiving guidance.

68. With this in mind we believe the products already available in the market, i.e. drawdown, annuities etc. are sufficient, and what schemes and providers must focus on is raising the minimum standards around saver support in order than they can reliably and safely be directed towards an income product that suits their circumstances, be that an annuity, sustainable drawdown rate or a combination.

69. Precise models vary in terms of how combinations of these products may be offered. Some Master Trusts enable the splitting of a pot at retirement with each section invested targeting a different objective, including for instance, annuity purchase in 15 years' time, while some offer a deferred annuity, purchased at retirement but accessed at a future date.

70. For those savers who do not make an active choice or opt into a given solution, certain Master Trusts offer a limited number of lifestyle investment strategies. In an era when most retirees do not buy an annuity, these strategies aim to enable a sustainable withdrawal rate while keeping the member invested in such a way as to ensure the pot lasts for the duration of retirement, and meanwhile the scheme will consistently contact the member prompting them to consider additional options which may better suit their circumstances.

71. As discussed elsewhere, many single employer schemes will not provide these solutions but we would like to see these schemes facilitating access to solutions elsewhere for the benefit of their members. For more engaged individuals this would mean access to comprehensive online guidance and tooling to explain options to enable informed decisions, but for those less engaged we believe a path of least resistance into a set of well governed solutions providing that sustainable income would be most beneficial.

Question 13:

If you don't provide this, why not?

72. Where schemes do not currently provide either retirement products, or some guidance and signposting to external providers, this is due to a combination of the cost of developing products, and the expectations and duty on trustees from the part of the Pensions Regulator (tPR).

73. The more significant of these, and the largest barrier to trustees signposting members to external options is the fact that tPR has no remit over the retirement market, and as such there is no requirement on trustees to support their members in accessing their pensions. Further, there is a reticence on the part of the trustees to engage in any activity which may stray towards the boundary of FCA regulated advice, and as such, for many deem it to be cheaper and lower risk to offer no support at all.

74. While most of the Master Trusts are developing retirement solutions and guidance, one in particular is not, and one reason for this is that AE schemes in particular tend to have a large number of members with small pots. At the point of access, small pots, according to FCA data, tend overwhelmingly to either withdrawn in their entirety, or transferred to a larger pension the member has elsewhere. Therefore, some AE schemes may also not consider developing comprehensive retirement support and products if they believe uptake would be limited.

Question 14:

How could CDCs work in practice in the DC decumulation market?

75. We will soon see the introduction of the UK's first collective DC scheme with Royal Mail, and this may be the first of a number of single employer CDC schemes, now that TPR has laid its new Code of Practice for this model. It is clear that for members of such schemes, CDC could provide that middle ground between flexibility and a secure income which we believe savers need, so we will be interested to see the development of these schemes.

76. However, it might be argued that the employers most likely to establish a single employer CDC scheme are at the more 'paternalistic' end of the spectrum and that their scheme members are already likely well supported. In order for CDC to support members of other schemes we would need to see the implementation of a regime for multi-employer and – specifically for members of single trust schemes - 'decumulation-only' models. There are certain challenges with such models, including scale, longevity of membership, smaller memberships, and also a dependency on members continuing to transfer into the scheme.

77. Some of our members have also raised that much existing modelling is based on very long investment horizons and a constant stream of funds entering the scheme. As a result of this and the other challenges above, the level of returns from CDC might, in practice, be much less than suggested by theoretical models, so given this uncertainty, payments would need to be made on a very prudent basis. This, if not well regulated could lead to a commercial scenario where there is too large a temptation for providers to over-promise potentially unsustainable payment levels.

78. Therefore we are still some way from these becoming a reality, so are glad that DWP will soon be consulting on further CDC models, and know some of our members are currently working on modelling to demonstrate their viability. There does remain considerable work to be done in

this respect so we would like to see clear objectives set by government in order that the industry can clearly target its work on CDC to clearly address the technical and structural complications with each model.

Question 15:

a. How do you envisage the decumulation landscape in the trust-based pensions market developing?

79. We are advocating for a decumulation framework which resembles the PLSA Guided Retirement Income Choices proposal, referenced in the executive summary, and fundamentally we believe the minimum bar needs to be raised for savers in all types of schemes over how they access their savings.

80. We therefore would like to see requirements placed on schemes to provide support and guidance, with a suite of products and solutions either in-house or signposted, underpinned by clear product and governance standards to meet savers needs. This framework is intended to provide a form of "guardrail" which prevents savers from making poor or uninformed choices, or being disadvantaged by not taking a decision at all.

81. Ideally, schemes would provide guidance to account for a saver's circumstances, inform them of the different products on offer, and how they might access a combination of these products that suits them. And in terms of products themselves, as we have discussed elsewhere, we would like schemes to offer access to a full range in order that savers' varying and changing needs can be accounted for (this need not be in-house).

82. Ultimately we would like to see those guardrails extend to support those savers who do not engage in the process at all. Within our GRIC proposal, this would include a saver communication and engagement journey deploying a 'path of least resistance' by signposting the saver to a solution (in scheme or outside of scheme) – seeking to remove the risk of the poorest outcomes. We envisage a 'consent/opt in' model, where schemes would issue key messages and support regarding guidance and advice that is available. Members would of course be able to take additional advice and choose other options at any time, but first and foremost we see this option as bridging the gap for savers from being defaulted into saving - with little to no knowledge – to an opt-out investment strategy that supports their longer term needs.

83. Looking further ahead, the clear development we would expect to see would be a consolidation of individuals' wider financial services tools and platforms. Over the coming years the Pensions Dashboards will develop and – we hope – begin to provide a helpful service for people to keep track of their various pension entitlements.

84. The standards underpinning these products and support would also provide a level of reassurance to trustees: providing their solutions satisfy those standards, any future legal risk they may face from savers deciding products were unsuitable would be minimised.

b. Is your scheme planning to make any changes to your decumulation offer in the future?

85. Planned changes to schemes' decumulation offerings tend to vary largely according to scheme type. Most of the larger Master Trusts are in the process of developing bundled guidance and product options for their accumulation members. Our expectation is that over the coming years, once these solutions have been embedded, more of these Master Trusts will open their products up to members of external schemes to transfer-in for decumulation, demand for which – anecdotally – we understand to be increasing.

86. Conversely though, many of the single-employer schemes in the market, currently offering little with regard to decumulation support, are not planning major changes. Of those schemes which participated in our recent member survey, 32% do not plan to begin offering products in future – but will consider signposting members elsewhere, while 26% are not planning to either offer products or signpost their members to external support.

87. This is therefore the reason we believe an obligation is required for trustees to take this extra step. Without this, savers in these schemes will remain without either the support or in-scheme product options which are increasingly available to members of other schemes. Such an absence of support would require them to make difficult choices, navigate the open retail market where products are more expensive, and assess their varying needs, which evidence shows would lead to poor outcomes when accessing retirement.

Question 16:

In your opinion, would a structured solution in the style of investment pathways benefit members with trust-based pensions, and why?

88. As per our previous answers, members would benefit from more structure and guidance from their schemes in order to address the spectrum of risks they face when deciding how to access their savings. Investment pathways were conceived of to address a more limited set of risks within drawdown; they do not help with other retirement products, and do not seek to help individuals establish a sustainable income that will not run out over the course of a retirement that could last decades. The decisions people take when they access their pension are therefore not simply with regard to a point in time; people's needs change, and so most will need a variety of products that allow for this, over decades, not just the five years which pathways address.

89. As such we see the pathways as a positive – but very limited - step in terms of a default safety net to avoid certain bad outcomes, including excessive cash investments. However, fundamentally as people's DC entitlements grow, and therefore the reliance on DC pots as the main source of retirement income increases, a more sophisticated framework will be necessary to ensure people can take fully informed choices which account for their needs further in the future.

Question 17:

If the government placed requirements on trustees to implement investment pathways, what would this mean for your scheme and a functioning competitive market?

90. As discussed elsewhere in our response, we do not believe investment pathways would provide adequate support for savers and would prefer a requirement for a more comprehensive set of guidance and products. Pathways were designed to address a specific set of harms, such as investments in cash, in the contract based market, and act purely within a drawdown context, so we do not believe they would address the wider range of risks faced by savers in trust based schemes, either at the point of retirement or throughout the duration of pension access.

91. We do believe however that the support on offer to savers should not differ according to whether they are in a contract or trust-based pension, and consistency would also mean less cost and complexity for providers and schemes. Therefore we would encourage further engagement between DWP and FCA, and also suggest careful consideration of the FCA's post-implementation review of pathways once it is published in order to learn from shortcomings which may be raised. Overall we would like to see an approach, for both sectors, which is less prescriptive than the current FCA rules, and in this way we think schemes and providers would have more latitude with which to develop the more substantial support savers need.

Question 18:

If you have introduced investment pathways, what is going well and/or what challenges are you encountering?

92. We are aware some of our members have already implemented investment pathways for their contract-based pensions, so extending them to their trust-based members may not cause undue strain in purely practical terms.

93. Some of our members have also implemented some pathway-type support for their Master Trust, for instance offering a limited number of options covering basic intentions for accessing savings, supported by simple high, medium and low risk static investment options. As such it would cause certain schemes considerable additional effort were a similarly prescriptive – but different – pathways regime brought in for the trust sector.

94. We would however highlight that a number of our members have told us that in the process of implementing pathways ensuring they achieved full compliance with the new regime, some pension providers delayed their work on considering the overall needs of pension savers following the introduction of the Pension Freedoms. Therefore we would be cautious over the potential capacity issues within schemes were pathways requirements placed on them.

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