PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA CONSULTATION RESPONSE - HELPING SAVERS UNDERSTAND THEIR PENSION CHOICES

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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.

EXECUTIVE SUMMARY

The PLSA warmly welcomes this consultation from government aiming to improve retirement outcomes for savers in trust-based DC pension schemes. We have engaged regularly over recent years with DWP in making the case for reform, given the retirement support and options available individuals varies greatly, ranging from no in-scheme options, to full suites of products. DWP's findings from last summer's Call for Evidence (CfE) reflect this, and with most savers' schemes having been chosen by their employer, the support on offer to them is often something of a lottery.

Clearly, a high proportion of current retirees benefit from at least some element of DB income, but as the 'DC generation' matures, the need for more support on pensions access will increase rapidly. Therefore, acknowledging the timeframes for legislation and industry implementation of major reform, now is the right time to address this.

We have been advocating our Guided Retirement Income Choices (GRIC) framework for some time, which proposes a statutory obligation on all DC trustees to support their members and offer a suitable retirement offering for them. We are therefore very pleased government plans to introduce such a duty. It is only with such compulsion that all savers will be able to count on their scheme supporting them, and this includes both support with at-retirement decision-making and with the products and services themselves. As we note elsewhere, the duty is also an important component to protect trustees in designing a suitable solution for their members, so government's intention to legislate as soon as time allows, is welcome.

We agree with the vast majority of the proposals, but below outline a number of areas where further consideration might result in better outcomes for savers.

Decumulation in the context of wider reforms

This consultation was, of course, published amid a wider package of measures, with an overall theme of consolidation and increasing scheme investment in illiquid and growth assets. We acknowledge the potential for greater returns that such allocations might offer, so support attention in this area, although we do not see artificially accelerated consolidation as the most effective route to this goal (see our 2023 paper).

However, we consider that linkages between each of the individual reforms (decumulation, value for money, small pots, trusteeship etc.) exist far beyond just growth investments, so we would welcome more attention from government on how they might each fit together to form a cohesive pension strategy. For instance, there are a number of practical issues which make these reforms inter-dependent:

- Decumulation & small pots – a key challenge for retirement support is the lack of a holistic view of every pension an individual has. Successful consolidation of small pots would make this process easier, and the resulting larger pots might enable more sophisticated solutions from partnering retirement providers.

- Decumulation and VFM – if there's an obligation on trustees to provide retirement products and support, they need to be able to effectively assess the value of their offering, including of any partnered services, so inclusion of decumulation within the VFM framework would benefit other trustees and members.
- Decumulation and transfers – while a range of solutions exist, both in-scheme and by transferring out, this initiative may have impacts on transfers to other external products, and it may be helpful, in due course, to consider the rules and flags around the right to transfer, in this light.
- Decumulation and trusteeship – the CfE on trusteeship focuses above all else on investment expertise and knowledge of unlisted assets among trustees. However, if we are imposing new requirements on trustees to assess suitable retirement options for their members, it follows that equal attention should be paid to whether they are sufficiently equipped to do this.

Communications & guidance

Our members are disappointed government decided to split member engagement from this consultation on products and services. We believe this was as a result of the sole focus on investment objectives we mention above, however in the context of comprehensive retirement solutions, it is unhelpful. As important as the right products are, unless government were to propose a hard default into them (which is not the case), they all rely, to a greater or lesser degree, on member engagement and decision-making. The overall member journey is crucial, so while we will engage with the forthcoming engagement consultation, it would have been preferable to consider both elements in parallel.

Defaults

Linked to the member journey is the role of a 'default', to which the consultation refers repeatedly. A true or 'hard' default would negate the need for the proposed member questions, since this is where members would end up if they failed to take a decision. The consultation does not appear to be proposing this, and we are supportive of that. But we are concerned about the effectiveness of the questions in directing members to suitable solutions: they simultaneously oversimplify a complex process, while not offering members with clearly identifiable options. Therefore, we would rather the obligation required trustees to offer a fixed default option, which members could opt for as a "solution for those not willing to make a choice". This might be a blend of sustainable and flexible income, based on the needs of the specific membership, while, of course, retaining the ability to take any alternative options, and would be supported by minimum standards. through this route members who do not engage in the process would still be able to achieve good outcomes.

Collective DC & pooling

The consultation discusses CDC throughout, and it is clearly a priority for government. We think, given the potential to improve outcomes, it warrants further exploration, however it would be highly premature to impose any related requirements anywhere in the market. More empirical evidence is needed to either prove/disprove its viability, and this is why we, alongside DWP are co-sponsoring research with the Pensions Policy Institute on this subject.

Meanwhile, we would urge government to remain open-minded to other innovations which might achieve similar aims to CDC, such as DC mortality pooling in retirement (we made a similar point in our response to the January consultation on CDC). We are aware of several providers who are developing such concepts, including one example in annex 2, so providers would benefit from reassurance from government that legislative changes to enable such solutions will be considered.

Nest in decumulation

Nest was set up to fill a gap in the auto-enrolment market and so is currently unable to offer drawdown to its members. The market has moved on, and at a time we are imposing obligations on all other schemes to support their members with retirement solutions, we agree with government's intention that the same should apply to Nest. It is paramount, however, that Nest is given a clear statutory purpose and obligations in respect to decumulation offerings, that provision is on a commercially competitive basis, and that its expansion of retirement offerings does not require further government subsidy.

Conclusion

Overall, we are very supportive of schemes providing (directly or partnered) a greater range of retirement solutions to their members. There are clearly certain challenges, including the pathway into such products, which is why the outcome of the communications consultation will be pivotal, but we are broadly pleased with the balance government is striking. Industry needs to be afforded sufficient flexibility to implement products that cater for the needs of different memberships, providing certain principles are satisfied. The case studies we provide in annex show a small number of existing and conceptual solutions, and these indicate the range of options for supporting members in decumulation.

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CONSULTATION QUESTIONS

Chapter 2: What we propose

1. Should it be up to trustees to determine the other suitable suites of products?

We agree that responsibility for determining a suitable range of products for members of trust-based pension schemes should fall to trustees. Trustees' role is overseeing the scheme in the best interests of those members, and given their fiduciary duty and existing knowledge of their scheme's member demographics, they are in the best position to make decisions on their behalf.

We are increasingly hearing from PLSA membership that, while it may in some cases be 'easier' for a scheme to provide minimal retirement support, the risk of this approach, and the bad member outcomes stemming from poor decisions, will begin to outweigh the risks of providing support. As the proportion of people retiring with a greater dependency on DC savings grows, so does the magnitude of their decisions, and the risk for trustees of litigation where a member puts a bad outcome down to a lack of support from those tasked with acting in members' best interests. For these reasons, we fundamentally agree that to achieve the outcomes proposed in paragraph 37, and schemes must offer central solutions as per paragraph 44, however would question whether those proposed truly constitute the term 'default'. We discuss this further in response to question 2.

There is, nonetheless concern, among trustees, that they might face litigation risk where a member considered their support – and associated services – was unsuitable. This is why, as we outline in our GRIC framework, we see a statutory obligation as necessary, as the requirement would provide trustees with important legal reassurance, provided their services met stringent minimum industry standards.

We do, meanwhile, need to be cognisant of both the overall burden on trustees, and their existing skillsets. With a wide range of obligations including TCFD reporting, small schemes' value for members assessments, annual chair's statements, and the upcoming Value for Money framework, trustees are stretched. We are also conscious that with existing duties focussed on accumulation, this may be where a lot of existing trustee expertise resides. As such, these proposals will likely pose a significant increase in demand on advisers and consultants, and may require an extension of existing skills among some trustees in terms of retirement options, something the parallel initiative and Call for Evidence (CfE) on trusteeship could address. It is right that trustees are responsible for supporting their members post-retirement, and it therefore follows that this should be a focus of any initiative aimed at improving levels of trusteeship.

Of course, employers have an important role too. The degree to which the employer role is active varies widely between different organisations – and as people move from job to job – but in some cases, the employer will be the most trusted source of information for members. This is another reason why the ongoing role of communication and guidance – through accumulation and decumulation is so central to this policy, and as we mention elsewhere, this needs to be considered *alongside* products and services.

2. **What can government do to help a CDC-in-decumulation market emerge?**

As we have consistently called for, and as referenced at paragraph 47, some element of sustainable income must form part of a comprehensive decumulation solution aimed at suiting the generality of scheme members. Therefore, we support government in exploring decumulation-only CDC as part of this policy, as it would theoretically provide a lifelong income, while offering the potential to improve outcomes through more growth and by removing decision risk.

That said, we are glad the initial proposal to require schemes to offer this option has been removed. We understand government's desire to stimulate a market for these products, however at a stage when no regulatory regime yet exists, let alone any decumulation-only CDC schemes launched, such a requirement would have been premature. At a stage where the regulatory regime for CDC is, as yet, undecided, we urge government to consider how other, similar, products – including DC models with mortality pooling – might be enabled in legislation too. We are aware of various providers with variations on this theme, including target date funds which would guarantee an income after a certain age, based on contributions to a pool. However, we typically hear that such models fit imperfectly into both DC and CDC regimes, since the longevity pooling runs contrary to the definition of 'money purchase benefits', and the lack of collective investment pooling mean they do not classify as CDC. Therefore, in order to benefit savers, we would need further legislative change.

The mechanism through which members would enter a CDC product was a key question addressed in the earlier consultation and remains one of the challenges to establishing both the necessary scale within one scheme – and a competitive market. Clearly, some form of default would make this easier, though our members would be particularly concerned with any kind of 'hard' default whereby members ended up in a complex scheme offering variable income levels without any consent. Indeed, some have suggested this should only be an option on an advised basis.

It is less clear how much scale a CDC might achieve, were schemes to offer it on a 'soft' default or 'opt-in' basis, where it formed the scheme's central decumulation offering. In terms of compatibility with freedom and choice, this would appear more reasonable, however the communication and education for members around what exactly to expect from the income would be paramount, so again, the engagement consultation later this year would need to have particular regard to how CDC options might be presented. Achieving an adequate understanding of CDC for members will be a fine balance; the majority will not engage with the technical working of the scheme, so key principles – perhaps within the required minimum standards – will be crucial.

There has been some discussion of a Nest – or government-run – decumulation CDC. We understand from potential CDC providers that this might indeed assist a market in getting

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established. However, we believe that as a major scheme operating on behalf of many millions of members, the decision of whether to operate decumulation CDC must reside with the Nest trustee.

Finally, potential providers of decumulation CDCs would welcome clarity as soon as possible over the regulatory framework. We are expecting draft regulations for whole-life CDC in September, but the sooner the same can be consulted on for decumulation, the sooner providers will have the basis on which to make commercial decisions.

3. **We would welcome views to understand what are the minimum requirements that trustees should put in place for members facing decumulation?**

The three elements outlined in paragraph 47 (cash, sustainable income, secure later life income) are the key factors which most retirees would benefit from. Therefore, as per our GRIC framework, it is reasonable that schemes' retirement offerings provide for these. As the consultation notes, many members want a regular income from their pension, and clearly it is vital people do not run out of money in retirement, however only 10% purchase an annuity (which may be partly due to low rates in 2021-22). Therefore, it is clear that some combination of flexibility with an income stream that will endure as long as it is needed, will be of benefit to many.

Given trustees are to be putting 'default' options in place for their members, it is vital that – while they retain autonomy over ***how*** to provide that income flexibility and sustainability – they do so within set parameters. As we outline in our response to question 1, this is crucial to both protect them, and to maintain some consistency across the market. In the table in annex 1, we outline key principles for both the products offered, and the governance of them, which according to the GRIC, trustees should have regard to. This includes the different forms of income proposed in the consultation, as well as suitable investment strategies for them, and how trustees must demonstrate that the design and ongoing review of these services, including costs and the third parties that provide them, is suitable. It is, however, important that trustees have the latitude to decide on a solution that truly suits their membership, especially for small pots, for which more complex solutions may not be suitable.

One area of uncertainty, is the 'do nothing' option, and the governance of this. We discuss in response to question 5 that the inference from the proposals is that if members do not 'choose' the 'default' option (and do not transfer elsewhere) they would remain invested until they take a decision. Therefore, there would need to be appropriate governance, not just around the 'default' scheme decumulation option, but also the investment strategy for those who do not engage in the process at all.

Informed decision-making is vital, so there will need to be appropriate governance of the communications and guidance which sit alongside the products and services too. We appreciate government intends to address this aspect in detail in a later consultation, but we would stress that ***both elements*** are needed for a workable decumulation framework, and that policy decisions should not be taken on one without the consideration of the other.

4. What factors should a trustee / scheme take into account when developing their decumulation offer?

Trustees will need to consider a wide range of factors when deciding on their decumulation offering. The key point is that they must aim to satisfy the needs of ***the generality*** of their membership. In developing a solution to cater for a mass market, non-advised population, it will inevitably need to be a compromise, but as discussed in our response to question 1, for many this will look like some combination of flexible and lifelong income.

In terms of how to offer each of those elements, it is right that trustees are afforded some flexibility, given memberships of different schemes vary. Memberships may differ according to average age, pot size, and length of service among numerous other factors. For instance, a scheme with a high proportion of long service members with high pot values might choose to place more weight on a sustainable income element, given it is likely their members will have a significant reliance on that pension pot in retirement, while a scheme with a majority of smaller pots might consider that most members would prefer more flexibility or simply to withdraw cash, with the assumption their members might have more retirement savings elsewhere. Schemes with wealthier members may also consider that there would be more benefit in offering preferential access to financial advisers, compared with mass market master trusts.

Cost of solutions will, naturally, need to be a consideration for trustees too, although in what is still a nascent market, cost structures and levels are yet to be clear or standardised. As highlighted in the FCA's post-implementation review of pathways, most contract-based providers offer pathways solutions at under the 75bps accumulation charge cap; we would expect similar to be the case for solutions in the trust sector. That said, assessing cost – and of course value – for different decumulation models may be challenging. For instance, if a partnered solution offered drawdown, but then directed the member to an annuity panel for the lifelong income element, it would be difficult for the original scheme to provide an accurate idea of the final cost a member might face.

One final factor which some of our members have mentioned as an omission is the ability for members to pass money on. Our overall view is that the primary function of a pension is for retirement income, and so this framework is right to focus on that, however some research into the proportion of people who may require support with inheritance planning might be instructive.

Unconnected to the above, but a potential complication for certain trustees, is with hybrid schemes where a link is retained between DB and DC benefits, for example, offsetting the DC pot against DB pension commencement lumps sums to allow the member to maximise their DB income. This link can have implications for scheme rules to allow for partial transfers, and would involve complexities where DC funds were accessed before the DB, and whether a partnered provider could have crystallised assets transferred. Given the complexity here, and also the fact that hybrid scheme members already benefit from a guaranteed income stream, we would recommend further consideration of the implications and operational requirements for hybrid schemes, whose needs may differ significantly from commercial master trusts.

5. **We would welcome views to understand if these are the right questions to capture the majority of ways an individual will want to use their pension wealth?**

Assuming these questions are indeed intended as questions for members rather than principles for which trustees should design solutions, they risk trying to over-simplify what is a hugely complex set of decisions for most retirees. They are also, perhaps, slightly confusing in terms of the key elements of a retirement solution; we would suggest changing 'regular income' to 'lifelong' or 'sustainable' income to more accurately reflect certain products, (annuities, CDC).

However, while the questions are on the one hand over-simplified, our members have stressed that they remain too difficult for many savers to answer. They prompt little long-term consideration, so many members will likely, due to a lack of understanding of how best to utilise their savings, still simply say 'yes' or 'I don't know' to every option. We therefore still find ourselves stuck on the continuum between needing extensive saver engagement to establish enough information to tailor a solution, and the least engaged option of a 'hard' default.

This raises the question of whether such a default, i.e. an ***opt-out*** option (similar to auto-enrolment) would be the better route. As it stands, members would have to actively opt in, through a series of questions, to the scheme's 'default' solution, but this implies there must in fact be a third – or 'do nothing' – option, where funds remain invested in a default strategy until a decision is made. We appreciate, however, that government wishes to retain the option of complete freedom and choice, so as per our GRIC framework, we think a clearer middle ground would be requiring schemes to offer a **single, central solution to their members, which trustees would calibrate to suit the majority of that scheme's demographic**. That one solution would itself satisfy both flexibility and lifelong income principles, but would avoid asking members the proposed questions. It would simply be offered on a 'take-it-or-leave-it' basis, allowing members to select an option where the scheme makes the decisions for them. They would retain the freedom to take all other options, but were legislation passed to support trustees to implement such a pathway, members would have the reassurance of a solution designed for members of *their* scheme, governed by stringent industry standards, without needing to engage with the process. We acknowledge this would not cater for the finer details of each individual's circumstance, however it would provide a reliable and safe alternative to the potentially detrimental outcomes from certain external transfers.

6. **Are there any other questions we should include in the framework?**

As per our response to the previous question, we believe a clearer and easier route for members would be avoiding these questions, and to have a single scheme solution offered.

However, looking at the questions themselves, we note one clear difference from the FCA's investment pathway questions is the lack of a time frame. This may be helpful in prompting savers to look beyond a five-year horizon, in line with the objective in the consultation conclusion (paragraph 83) about decisions being those which savers want to continue with. More broadly, we are pleased government does not plan to replicate the pathways questions, since those were designed to achieve a specific goal, namely avoiding cash investments through drawdown, while the objective of this policy is wider.

The questions also raise the possibility of regulatory arbitrage where a scheme's signposted decumulation solution was an FCA-regulated drawdown provider. It appears that members would have to engage with these questions, before transferring to the provider, at which point they may be presented with the five questions mandated by the FCA for investment pathways. This seems an unnecessary, and potentially confusing duplication of a process, which, were the partnered provider a non-FCA-regulated master trust, would not exist. If this is indeed the proposal, we would both welcome more information on how it would work in practice, and would suggest that schemes partnering with providers in this manner be exempted from the pathways requirement.

One clear omission from the questions is the option of withdrawing a pot as cash. Certain schemes and master trusts have a high proportion of small pots (e.g. under £10k), where members may represent only a small proportion of a retiree's overall pension saving. In such cases, where the retiree doesn't opt to transfer the small pot elsewhere into another pension, the norm is to withdraw the entirety in case. If these rules are to apply to all schemes – including those as we outline here, it would make sense to include full withdrawal as another question.

Linked to this, and an existing question in any decumulation proposal, is the inability of any one scheme to have a view of what other pension entitlements a member has, or whether the pot in question is going to be someone's primary source of income. While pensions dashboards, and linked post-view services may, in time, assist people with considering their savings holistically, we would recommend that the questions (or retirement communications offered) include prompts to encourage people to think about all their entitlements in the round, and where, appropriate, consolidate these ahead of accessing, given a large number of distinct, defaulted solutions is unlikely to be beneficial for most retirees.

This, alongside other potential considerations, such as inheritance or spouse's pensions are, however, simply additional factors which demonstrate the complexity of a process and, thus, the difficulty of reducing it to a simplified set of questions. For this reason, it is impossible to fully evaluate the question set without a view of the wider proposals for the communications which must sit alongside the product offering. Absent a single option as we suggest above (or even a 'hard' default), a substantial amount of context and understanding will be necessary for a member to decide between offered solutions or to access their pension in an alternative manner.

7. **We welcome views on whether you see any issues with this approach and whether there are potentially any implications due to the advice/guidance boundary.**

As the proposals stand, where a scheme offers a set retirement option which trustees deem suitable for the generality of the membership, but which members still need to choose, we do not think the advice-guidance boundary would pose a problem. The boundary comes into play where more consideration is taken of someone's personal circumstances, and a product is recommended as a result. Therefore, given the simple process outlined, and a solution for the *generality,* there appears limited scope for personalisation, although without seeing the proposals on communications and guidance in parallel, it is difficult to judge this definitively. However, where a member opts for a combination of products, careful consideration may need to be given to how they split their pot and how they are advised regarding this.

The boundary is also often a concern where recommending a particular provider's product, rather than a product in principle. While the partnering proposals would see schemes offering a specific option to their members, as per our GRIC, the minimum product standards should provide trustees the necessary reassurance over the particular provider they choose. Further, we would hope that the FCA's current advice-guidance boundary review would provide greater clarity over what additional support schemes and providers can offer.

8. **Do you have any suggestions for key metrics or areas that would need to be included if the proposed value for money framework was extended to decumulation or suggestions for where proposed metrics may no longer be required?**

As we outlined in our response to the VFM consultation earlier this year, any framework aiming to comprehensively assess the value offered by schemes must include evaluation of the retirement support offered. Since the pension freedoms, all retirement decision-making risk – including longevity, inflation and investment risks – lies at the feet of the individual. As such, even someone who has accumulated considerable savings might result in bad outcomes as a result of one bad or misguided decision.

Therefore there is enormous value in the support schemes have in place to avoid such outcomes, and in an overall value score that support must be reflected. Assessing this support is complex though, and does not lend itself easily to simply quantifiable metrics. Clearly, some indication of a scheme's offering can be gleaned from standardised satisfaction survey results, as well as comparing charges, but given government intends to allow schemes flexibility over which solutions they choose to support members, there needs to be similar flexibility, in the form of qualitative assessment, when it comes to measuring these.

In our response to question 9 we outline the variety of different solutions which might satisfy key decumulation principles (flexible access and sustainable, lifelong income), and no single metric could adequately compare these. Instead, trustees would need to have the latitude to explain the support on offer, in the context of those key principles and how it caters for them. Further, some PLSA members have suggested that the central value resides in the journey – including the communications and guidance – and so qualitative assessment of schemes' offerings to engage members would perhaps be of most use. While measures of products offered might be of some use, they might be argued to be redundant if stringent minimum standards were already applied to them.

We agree with paragraph 53, that savers' needs to not differ according to whether they are in a contract or trust-based scheme. The primary focus of this consultation – and our GRIC framework – is the trust sector, since this is where the most significant gap in support is, however we would like to see it extended to contract schemes where possible, as more alignment and consistency between the two regulatory regimes can only be beneficial for both savers and the industry.

9. Do you have safeguards in place for members in the decumulation stage? If so, what are these safeguards and what information do you provide to members?

and

10. Do you use the same charge structure as you do in the accumulation stage?

PLSA members offer a wide variety of different retirement solutions to their members, many of which satisfy both lifelong and flexible income requirements. These can be delivered in various ways, including through pooling, combinations of drawdown and annuities, as well as with funds targeting a sustainable withdrawal rates. In annex we include case studies from a number of different providers, many of which, we believe would be beneficial if offered as a 'default' by a scheme to its members. In terms of take-up for these options, again there is a range; some products are not yet available, while some are recently launched; either way we would expect to see take-up increase over the coming years as the DC generation matures and more savers are more reliant on their DC savings in retirement. We also provide examples of an own-trust scheme already partnering with third parties to offer their members decumulation services.

11. We would welcome views to understand what are the practical considerations of partnering arrangements?

and

12. Should government set out a minimum standard partnering arrangement?

We are supportive of the ability of schemes to partner with third parties in order to offer suitable retirement solutions to their members. There are, however, certain challenges, including the supply of third parties willing to accept decumulation business from schemes, especially were all schemes required to make this provision. Clearly, schemes with higher average pot sizes will be more attractive for the receiving master trusts/providers, and we are aware that certain existing solutions have minimum pot sizes (typically from £20-40k). Some master trusts and providers also only offer their retirement services to their existing members, although many do have plans to open these up to the wider market in due course.

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Our view is that the obligation on schemes would therefore drive the supply side of the market to develop its offerings, to cater for all schemes, and several of our members are currently developing retirement-only master trust sections to this end. This market is in its infancy, though, so this will take time. Some of our members have suggested that initially requiring master trusts to offer this support would be a good first step, then prompting the own-trust sector to follow, however overall, we would prefer a grace period for implementation, perhaps of two years, once the requirement is in place, rather than allowing time ahead of legislation, or segmenting the market. This would allow for the necessary programming changes within schemes' 'in-house administration systems, as well as for required budgeting and prioritisation processes within schemes, for which trustees, themselves, often do not have responsibility.

In terms of different partnering models, we understand that, of the examples provided in the consultation, schemes often deem the lowest risk and best value for money approach is that outlined in example 3. A partnership with a Master Trust, as per the Wood Group case study we provide, will often be the preferred solution, however we are aware other arrangements are in place, and as this market develops and grows, government should not limit partnering arrangements on this basis.

This is especially the case when you consider that a default 'to-and-through' solution from accumulation to decumulation, would enable continued investment in growth assets, with no need to de-risk or transfer out, and hence would also avoid disinvestment costs. Therefore, the development of more partnering arrangements of this ilk would be beneficial, and would remove some of the friction in the process around the need for members to actively consent to transfer.

13. A. Should all schemes be allowed to establish partnership arrangements or only schemes of a certain size?

Most individuals have no choice of which workplace scheme they save into, so good retirement provision needs to be in place for members of all schemes. Therefore, all own-trust schemes, irrespective of size should have this option. Of course, it may be that certain small schemes, or schemes with very small average pot sizes, do not have much choice in terms of schemes to partner with, however no regulatory restriction should be placed on them.

14. Is there a role for a centralised scheme to deliver decumulation options, where trustees are unwilling or unable to offer these directly?

As we outline in our response to question 12, it may be that certain schemes would not represent commercial value for a third-party provider, and so these may struggle to put in place a partnering arrangement. For master trusts, employer partnering for retirement is a growing business area, however the size of a given book of business could typically be less than half the size it would be for accumulation for the same scheme, once transfers-out are borne in mind, especially with many auto-enrolment type schemes still targeting primarily cash at retirement. As such, certain schemes may not represent viable business from a partnering perspective.

For this reason, a centralised scheme would, theoretically, solve the problem by offering a destination for those schemes. Implicit in this question, though, is that such a scheme would be a state-backed entity, or adaptation of the current role of Nest. We cover some of the particular challenges to Nest's role in decumulation in more detail under question 18, but in essence, the funding of any such centralised scheme must not put it at any commercial advantage over the rest of the market.

In terms of purpose, Nest, in accumulation, was set up to fill a gap (or market failure risk) where some employers would have no providers to enable them to automatically enrol employees despite a requirement to do so. In the context of this precedent, there would need to be a ***demonstrable*** lack of supply of full suite solutions accessible to smaller schemes (from master trusts and providers), before a decision was taken about a centralised scheme (whether Nest or another central entity) offering decumulation options to those schemes. The retirement product market for trust-based schemes is still in development though, so it may take time to prove such a situation exists; government must not take such a step until a reliable evidence base is gathered to justify it. This should include a full government-led review of both the demand and supply side, and analysis of products under development. Of course, the evolution of this market will also be impacted by the development of the market for small pot consolidators.

Chapter 3: Implementation

15. **We would welcome views on if there is an alternative to our approach for legislation that would achieve the same results?**

As per our GRIC proposals, and response to the 2022 CfE, we believe that legislation is required to cover the whole market. Schemes face myriad regulatory requirements, so were they not required to offer retirement support, for many it would be deprioritised in favour of other obligations. If it were mandated, as proposed, we would expect that this would also stimulate the supply side of the market, which, at present, is of insufficient size to cater for all schemes.

The other vital reason we see legislation as necessary, is the vital protection it provides for trustees when it comes to designing and deciding on the shape of their 'default' offer. Without legal reassurance, there is the risk that members decide they were directed into an unsuitable product and litigate against the scheme. A statutory obligation on trustees to provide a default that complies with industry standards, would mitigate this key risk.

We do, however see a role for alternatives, such as best practice initiatives or quality marks, both leading up to legislation, and in the period between legislation and any implementation deadline. We are conscious the legislative process takes time, and that schemes will need further time for implementation (it would usually take an own-trust scheme 12-18 months to establish a partnering agreement), so these would help gradually increase the quality of retirement support in the interim.

16. We want to work with industry during the implementation of these proposals; what timeline should we work to implement these changes?

While many schemes are already instigating partnering arrangements, and the master trust and provider market is growing in its provision of retirement services, it will take a considerable time for market coverage to be universal. In order to have all schemes participate it will likely be necessary to legislate as soon as possible, with a reasonable deadline for schemes to comply with the legislation, perhaps two years thereafter.

17. When we introduce legislation should this only apply to Master Trusts in the first instance?

No. Many existing master trusts are already developing decumulation support and solutions for their members, so as we see it, the most significant gap in support is for members of single trusts. Therefore, as we advocate in our GRIC proposal – and is proposed in this consultation – the right approach is to mandate the provision of support for all schemes, allowing for schemes to use partnership arrangements. In terms of ensuring support market-wide, it would be more effective to legislate for all initially – then allowing sufficient time for implementation – than to legislate in phases.

Chapter 4: Role of Nest in Decumulation

18. Do you have views and evidence on how this can be delivered in ways that achieve our policy aims of stimulating CDC in decumulation, enabling Nest to provide the services outlined in this consultation, while ensuring a healthy competitive marketplace?

The fundamental aim of this policy is that all trust-based pension savers have access to retirement products and services through their scheme (or via partnering). On this basis, in fairness terms, members of the biggest master trust must have access to the same experience as others. This is especially important, given Nest's membership is, on average, one of the less engaged, and would therefore find this increased level of support most beneficial. As the consultation implies, Nest members may typically be less able to rely on employer support too (paragraph 71).

Paragraph 71 of the consultation raises the question over whether Nest might more effectively offer these retirement options if it partnered, itself, with a third-party provider. We believe as the largest scheme, and as one which focuses solely on the lower wealth segment of the market, Nest's own trustee is likely to be best placed – with its particular expertise with this demographic - to provide these options in-house. Further, if Nest were to partner, additional questions arise, such as the need to divest and reinvest as a member transfers, therefore affecting asset allocations and horizons, possible additional costs and introducing 'out of market' risk. However, in the interests of

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upholding good governance standards, we would expect Nest to conduct a full cost-benefit analysis of the benefits of providing these solutions both in-house and through a third-party partnership model, and to tender for the services to establish the most efficient approach to deliver them.

If Nest is to offer its members drawdown itself, it should clearly set out its target market, and enable regular government review to provide market reassurance that it is not straying from its set objectives. We understand no additional government subsidy would be required to enable Nest to begin offering a drawdown solution, and the wider market would require assurance that this would remain the case.

Some amendment to the Nest Order will likely be needed to enable Nest to offer the full range of retirement solutions. One such change might be on S32 of the Order which restricts Nest's payment of benefits to lump sums, effectively preventing both drawdown and CDC decumulation options. Therefore, if there were to be any provision made for Nest to offer additional means of income, the Order would need to reflect this.

Chapter 5: Impacts

19. **Are you able to quantify any of the one-off or on-going costs at this stage?**

It is difficult to accurately quantify the costs of this policy for schemes. However, it is clear that the overall benefits, in terms of preventing bad member outcomes, would likely considerably outweigh any implementation cost. We have encouraged our members to respond directly to this question.

20. **Are you able to provide a breakeven point in pot size for providing certain decumulation products or services? Would this be different for decumulation only CDC's?**

Having spoken to providers of a range of different retirement products and services, typically those that accept transfers-in would have a minimum pot size threshold of between £20-40k. This is not universal, though, and some have highlighted that with sufficient scale this could be considerably lower. The cost of developing and running a CDC scheme will include many factors, including seed capital to set the scheme up and run it until scale is achieved, so an overall breakeven point would be very difficult to estimate.

21. **What benefits do you expect there to be from the proposals members/schemes/wider)? Do you think they are quantifiable?**

As outlined throughout the consultation and elsewhere in this response, the proposed reforms should result in considerably more support for DC pension savers, both in preparation for - and at - retirement. It is vital that scheme members have both sufficient guidance on offer to complement the right suite of products to meet their needs, so we would like clarity on this element through the upcoming consultation as soon as possible.

There are, of course, other potential benefits, including consistency with the wider illiquids agenda, as discussed at paragraph 81 of the consultation. Further, it will be interesting to monitor the evolution of the retail market for retirement. The introduction of default options may lead to further innovation and competition in those options, if the path of least resistance leads to in-scheme/partnered services, meaning the 'freedom and choice' option may present more hurdles for members.

22. Do you think the benefits from the proposed changes outweigh the costs?

Yes. It is particularly difficult to accurately quantify the benefits of this policy, as is clear from the government's own cost-benefit analysis, which only seeks to assess money saved per saver from not needing to transfer into an external retirement product, which may charge higher fees. Benefits will be, in reality, far greater, should the policy prevent savers from taking bad decisions which might ultimately see them completely running out of money in retirement.

Such decisions might include withdrawing and leaving money in cash, making tax-inefficient decisions including opting for unsustainable withdrawal rates. FCA's retirement income data for 2021-22 shows that the vast majority of drawdown withdrawals are at a rate of over 8% for all pot sizes up to £249k, which most providers would acknowledge to be unsustainable for an average retirement.

Premature withdrawal decisions might also lead to an increased vulnerability to scams. FCA research in late 2022 showed that a quarter of consumers were considering withdrawing cash earlier than planned, in order to help cover costs during the cost of living crisis. Withdrawals in such circumstances will make people more susceptible to those seeking to gain access to their hard-earned savings.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

ANNEX 1 – GRIC STANDARDS

	MEMBER ENGAGEMENT	PRODUCTS/SOLUTIONS	GOVERNANCE
PURPOSE	▸ Minimum requirements in this area would cover the information schemes should provide savers with and seek to receive from them.	▸ Minimum requirements in this area would cover the construction of the default solution and the features of the products selected to fulfil it.	▸ 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.
REQUIREMENTS	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.	i. Trustees would provide a default investment strategy that operates in the interest of members. ii. Trustees would offer or signpost to a preferred suite of products or solutions that can that can provide, fulfilling the retirement needs of the scheme's membership, the opportunity to achieve: ▸ 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, in their product/solution selection, limit the need for people to take complex unadvised decisions in later life.	i. Trustees must follow appropriate processes for initial design of the decumulation proposition, as well as those related to ongoing review of the proposition such as by designing regular (at minimum annual) reporting on the decumulation solution and the decisions members are making. A specific, wider review of the overall solution should be undertaken at least once every three years.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 target 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.

ANNEX 2 – PLSA MEMBER DECUMULATION CASE STUDIES

Wood plc pension plan – retirement options

Providing value for money and improving member outcomes is at the heart of the Trustee Directors strategy for the DC section of the Wood Pension Plan. We annually survey our active and deferred members as well as holding demographic-specific focus groups to understand our members needs at all stages towards retirement. Over recent years our decumulation options have expanded to provide more support for members when they finally draw their pension.

Members of the Plan are able to benefit from UFPLS, third party annuity services and a signposted drawdown provider which is backed by guidance for members in the lead up to retirement with pre-retirement seminars, guidance at retirement from an external Pensions Decision Service and support from an in-house administration team. These are also complemented by regular communications to provide education for members on the options available from the Plan as well as support for the retirement process and living in retirement.

Since rolling out our signposted drawdown facility with Scottish Widows in July last year, take up from the membership has been steadily increasing, members intending to go into drawdown before the new facility was made available usually transferred their DC pots to other insurance companies perhaps consolidating all their pension pots in one place. As our membership is becoming more aware of the opportunity to do this with our signposted provider, we foresee take-up increasing further as members choose to keep their funds with the same investment options that were available under the Plan and with a good, discounted rate structure secured by the Trustee (this agreement best reflects the third partnering example in the consultation (paragraph 65). The minimum pot size for this option is £30k.

The recent impact of inflation and cost of living issues have seen numbers of members using UFPLS increasing but interestingly so far there has been no increase in the number of members using the provided annuity services, despite the better market rates on offer. Our forthcoming communications will remind members of what annuities offer and the security it gives in retirement.

Smart Retire

Smart Retire is a four-pot model which offers members flexibility to take regular income payments, ad-hoc lump sums, secure a pot which will enable the member to purchase an annuity at retirement or pass on to their loved ones after they die. Each of these options are backed by appropriate investment approaches. Members can select how their funds are split within Smart Retire and should their circumstances change they can move funds around. Smart Retire was initially available to members who had at least £20,000 in the accumulation pot prior to taking any tax-free lump sum, however this limit is in the process of being removed and therefore the only remaining restriction is on the later life pot where a minimum pot size of £5,000 is imposed reflecting the annuity market restrictions.

Members wanting to use Smart Retire can do so once they reach age 55 when they have access to information regarding retirement options and being able to apply to enter this part of the Scheme. Smart offers a range of charging structures in accumulation, however, Smart has recently harmonised its investment charges to 30bps for each of the investment options within Smart Retire and removed the administration fees. For the majority of members, this means they will be able to access a flexible retirement solution for equivalent or better terms than they have during accumulation.

Whilst Smart offers a range of online information and awareness materials to support members accessing Smart Retire, many members continue to seek the reassurance of speaking to someone as they go through the process. This is non advised and mostly factual information regarding how to complete the online journey along with further information about how they will be taxed at outset and how other pension savings may be impacted. Smart has sought to make this as easy to navigate as possible, but note there may be several interactions with the member before they have accessed the product.

Smart is also partnering with third party introducers which allows their clients to participate within the Scheme and also access bespoke investment solutions within Smart Retire aligned to their partner's strategies. Smart is looking to further extend accessibility to its Smart Retire solution to schemes which don't currently offer retirement options and are seeking to partner which does, as well as to individuals who want to access a drawdown product.

Smart does not offer an annuity product, but has recently partnered with Punter Southall to offer access to annuity options for its members via their Pension Potential service.

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Longevity pooling – Hymans Robertson

Longevity pooling is an approach where an individual can boost their income in retirement by up to c20% (relative to conventional income drawdown, according to Hymans Robertson analytics) by agreeing to give up some or all of their pension pot upon death. In practice an individual will enter into drawdown at retirement, they will be able to make withdrawals (within pre-agreed limits) and they will regularly receive a longevity dividend. The longevity dividend is calculated from the assets of any pots left over when a member in the "pool" passes away, and it is allocated across remaining members, proportionate to their risk of dying and pot size.

Members could enter this as an advised or non-advised solution, sitting within a default or as a product option. A natural fit would be in a workplace pension scheme as part of the retirement proposition design. There would need to be an active member decision, just like going into an annuity or drawdown, but it could be structured as part of the default design. A key design consideration, determined by the communication, engagement and marketing strategies of the provider, includes options such as single life or a joint life pension boost product option. In terms of suitable pot sizes, the product would be most suitable for members who are relying on their DC pot for a long term income stream.

This concept could be implemented today, albeit the legislation wasn't designed for this purpose. Firstly, we believe it can be introduced by making an amendment to existing deeds, using trust law and the existing pensions tax regime. Secondly, it could make use of the existing dividend administrative processes (to pay the longevity dividend) and legal construct of expression of wish forms (to nominate the "pool" as the beneficiary), therefore it is low cost and familiar for providers. Finally, it could estimate longevity using postcode and wealth analytics. It is estimated that for the product to be effective it would require c500 or more participants in the pool, so would be suitable for larger schemes or master trusts.

From a member perspective, there would be flexibility in access, allowing the member to allocate a percentage, or all, of their drawdown pot to the longevity pool. They could do this at one time or over a period with phased allocations, to help manage regret risk. They will also retain a degree of flexibility over the investment strategy. The product does not guarantee a lifelong income, but, coupled with continued advice/guidance to centre around a goal for lifelong income, will reduce the risk of running out of money. The withdrawal rate limits are designed based on an individual's estimated life expectancy, and are recalibrated to reflect market performance, longevity expectations and the longevity bonus addition.

From a scheme perspective every member's pot is unit linked at any point in time – there's no need to value assets or liabilities "off market" or judgements about whether markets might recover or not. With less liquid liabilities than traditional DC, you can get all the benefits and uplifts from illiquid asset investment, and all the benefits of longevity pooling – so all economic benefits of CDC without the challenging questions about intergenerational risks.

The key changes that would make this easier to implement:

- Support for trustees in setting a default decumulation strategy that is right for a 'typical member's needs'.
- A firm regulatory footing, rather than working with the legislation we have today.

Decumulation Life-Cycle Solution provided by Munich Re & Unigestion

The overall objective of our offering is to provide a solution that directly addresses the current challenges in the decumulation phase, we have provided below a brief summary of the key features:

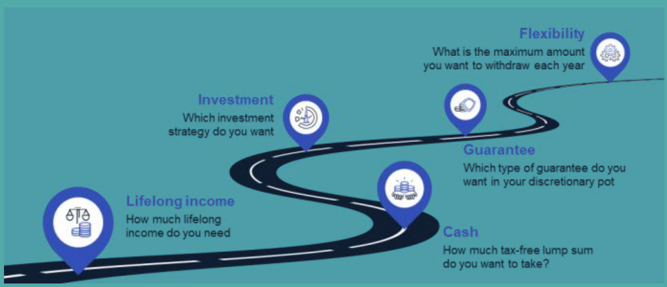
Seamless Journey:
Ability for any DC Scheme to retain the member within the current fund structure during decumulation.

Secure Income:
Provides the member with the option of a lifelong guaranteed income funded from within their existing "fund structure".

Remain Invested:
Member remains invested in capital markets within their existing DC Scheme\Provider fund structure.

Protection:
Members can ensure their discretionary pot will never be less than they started with unless they make voluntarily withdraws.

The initial step is to ask the member a few simple questions, this can easily be done at regular intervals during their accumulation phase. In addition, we can help the member at this stage with digital tools. Nb. Solution can work as a to-and-through solution or in decumulation only.



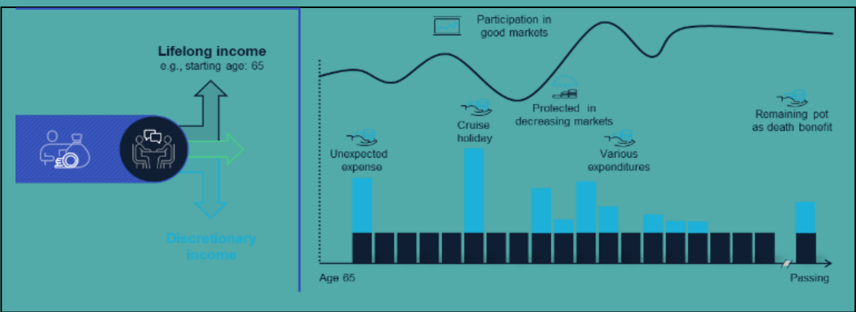
Depending on a combination of their preferences the outcome for the member can cover:

Guaranteed level of income
This is provided by Munich Re and is funded from part of the member's overall pot. Unlike traditional annuities this part of the pot can remain invested in markets, to ensure members benefit from rising markets.

Discretionary pot
The member's discretionary pot value will be invested in capital markets in-line with the fund choices they were previously invested in or any other option they have chosen.

Protection against falling markets
This offering has the option to provide members a cost-effective option to protect their "discretionary pot" value against falling markets. Costs associated with this option can be structured to be constant over the lifetime of the product.

Benefits payable on death of the member
Unlike the traditional approach to providing lifelong income, in the unfortunate event of a member's death, any remaining assets held in the member's total pot can be returned as a death benefit.



A member might, for example, decide to allocate 50% of their pot to a guaranteed lifelong income and 50% to their discretionary pot to cover future life-cycle events. Note: the offering provides a solution at an individual member level so minimum pot sizes can be as small as £10k.

We believe this offering addresses the key needs of a member e.g., lifelong income, flexible withdrawals and security in decumulation rather than "reframing" the offering of existing products. Aligned with the recent UK Government proposals, it meets the requirements of a "soft default" option. Our view has always been that the DC provider should offer their members a DC provider "supported" option" as well as highlighting other options available. The offering is "tried and tested" and is currently in place for the Munich Re, German Employees DC scheme.

CDC in-decumulation – Simon Eagle, GB Head of CDC at WTW

Why introduce CDC in-decumulation to the UK? The main purpose of retirement savings is to provide income for retired life. At the moment in the UK, the only way to ensure a stable income over one's retired life (however long it turns out to be) is to purchase an annuity, yet only 10% of DC retirees do this. Annuity pricing typically provides returns at a little under gilt yields for one with an average lifetime, and this is perceived as an expensive price for the insurance guarantee provided. Therefore, there would seem to be a gap for an at-retirement product which pools longevity to provide an income for life, and targets higher income by providing no guarantee and as a result can invest the funds in higher return-seeking assets. Based on WTW's modelling of a potential CDC design as published in 2020, updated to look at in-decumulation and for end-July 2023 market conditions, average CDC income could be 50% higher in retirement than from insured annuity purchase.

There are a number of steps to make CDC in-decumulation a reality:

1. Further change to the law enabling whole-life CDC schemes would be needed, as per DWP's 2023 consultation.

2. A provider, probably an existing DC master trust, would need to invest in the design and implementation of an offering. This will require working with Government to show the merits and robustness of the design; if persuaded Government could then provide for it in law.

3. The provider would also need to be confident that there will be sufficient demand for the offering so that costs are ultimately met. We believe some well-suited existing DC providers could reach this view, as follows:

   - Excellent member communications would need to explain what the option is and show its merits while explaining risks and disadvantages compared to other options, and **ensure that individuals understand that the benefit levels are variable and not guaranteed**. These communications would also provide a means of efficiently moving from accumulation into the in-decumulation CDC vehicle.
   - Access to an existing customer base of DC retirees and future DC retirees would be ideal, hence this is likely to be suited to an existing DC master trust where such a transition from accumulation to decumulation would be more straightforward.
   - Under the new decumulation framework, if Government introduced a requirement for all DC trusts to provide access to CDC in decumulation, that would ensure providers either set one up for themselves or provide a pathway to it, which would help generate demand. The source DC fund's communications would signpost the CDC offering, and arrangements would be in place to facilitate efficient transfer for members who choose it.
   - To help ensure cost effectiveness the provider could set a minimum pot size for purchasing the offering, for example this could match the £30k trivial pot threshold.

4. To implement the offering, the provider would need to build an admin platform, develop the comms, make arrangements for the investment and actuarial work and write the offering into the scheme Rules; the Trustees would then need to seek authorisation from tPR.

5. Finally, DC savers would need to choose the offering – either at-retirement, or by transferring (at least part of) their DC savings to it during retirement. If positioned alongside existing options at retirement, we believe in-decumulation CDC would be an attractive option for many individuals for the reasons set out above. It is important that financial promotions are done properly, and that in-decumulation CDC is presented to these individuals at retirement without bias. We believe this can be done through the regulatory authorisation and supervision regime that applies to CDC schemes, noting that we do not envisage large numbers of in-decumulation CDC schemes being set up, given the scale required and the burden of the authorisation process.

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