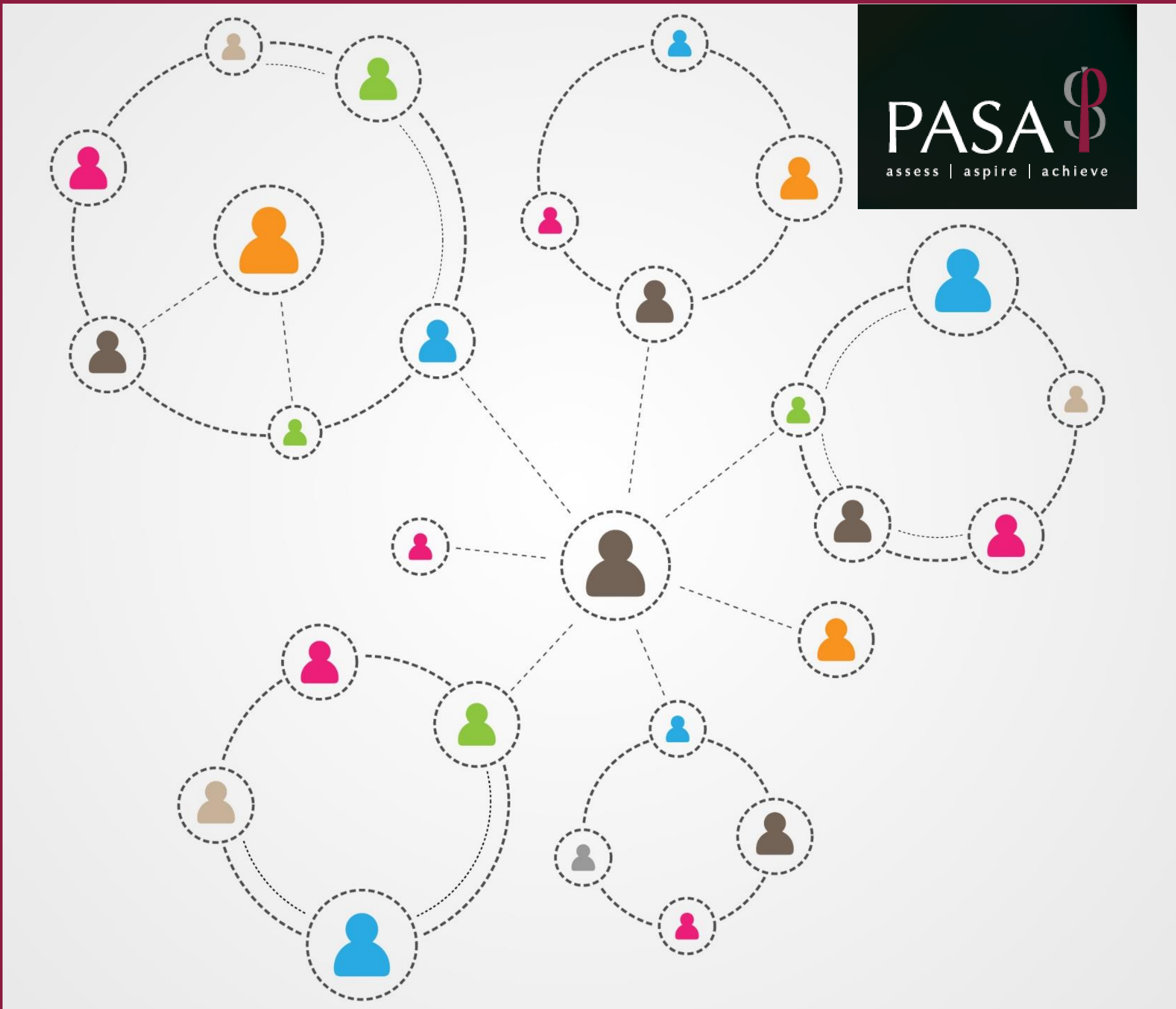

# PASA Consultation Response

DWP Call for Evidence: Helping members understand their pension choices

July 2022

# Acknowledgments

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|---|---|
| Chris Tagg (Board Sponsor) | **PASA Board Director** |
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## 1. Introduction – About PASA

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure to set, develop, guide and assess administration standards.

PASA acts as a focal point and engages with industry and government to create protocols for understanding good administration - but also appreciates there's no one size fits all. PASA develops evidential Accreditation practices allowing benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the profile of pension administration generally, PASA focuses on three core activities:

1. Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers
2. Publishing Guidance to support those standards
3. Being an independent Accreditation body, assessing the achievement of good standards by schemes

There's no organisation providing such services across schemes, yet there's a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, savers and regulators.

## 2. Summary of PASA’s view on the Discussion Paper

We welcome this consultation on a vital part of savers’ pension journey, focusing on DC schemes. We note there’s a particular focus on investment pathways throughout the consultation. Investment pathways are still in their infancy and therefore we expect there are still many lessons to learn over time. We believe the FCA plans to review these in future to accommodate these learnings.

There are several areas where we welcome further attention and development, in particular:

- Between the ages of 40 and 50 is a key accumulation pension stage. This should be viewed as a key point in time to support savers
- Communication and the ‘testing’ of saver understanding remains of paramount importance for CDC
- Greater encouragement for savers to look at all their pensions holistically and if applicable, encourage households to discuss their pensions and pension income
- Development of default lifetime pension income options. Savers' trust defaults in accumulation and we expect the same will apply in decumulation
- Consideration to underlying investments as savers approach pension access/retirement
- With greater number of savers opting for drawdown rather than an annuity at pension access, investment strategies should be reviewed to better align with how we expect savers to take their pension income
- Greater focus on a longer-term journey for investment pathways
- Investment pathways currently support with the initial decision. However, we would like to see further thought and development on the longer-term saver journey
- Consideration on how to support savers as they move between pathways and potential decumulation frameworks

## 3. Consultation questions and responses

### 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?

The majority of schemes provide prescribed information in timescales aligned to disclosure requirements. For the most part, this information is provided to savers in writing, which may result in limited interactivity.

Many schemes provide a host of useful calculators and tools online through user portals and people who use these offerings are likely find them incredibly useful. However, take up remains low. More engaged schemes and employers may seek to engage savers through various initiatives, such as providing events and online webinars.

### Question 6:

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

The Institute for Fiscal Studies briefing note published in May 2021[1] suggested as much as 2/3rds of pension contributions are made between the ages of 40 – 45. This indicates the best time to increase retirement savings could be after children leave home and/or when both the mortgage and student debt is lower/completely repaid.

With this in mind, this age bracket could be viewed as a key point in the accumulation journey and we suggest savers are provided with the following information at this time:

- Current fund value
- Projected fund value
- A comparative retirement income measurement such as the PLSA Retirement Living Standards
- Information, tools and calculators on how to increase the fund value and subsequent increase in pension income the saver may expect (in essence showing an return on investment)
- Contact information for any available initiatives (MoneyHelper, webinars etc)

This is a good opportunity to communicate the benefits of saving into a pension, including tax benefits, employer contributions (if applicable) and highlighting any wider environmental and/or social benefits.

When available, pensions dashboards will enable the saver to see a consolidated view.

### b. What information do members need from age 50?

As most savers are unlikely to access their pension savings until they're in their 60s[2] and even then, some only access their tax-free cash in their 60s and defer taking regular income until later in life, all the information suggested in the above age bracket still applies, with some additions, these include:

- An overview of the pension income options available
- A nudge to Pension Wise
- Information/link on where to find details on the State Pension

[1] https://ifs.org.uk/uploads/BN327-Life-cycle-patterns-in-pension-saving.pdf

[2] FCA Retirement Income Market data – The highest age banding for annuities and drawdown with an annual income being purchased is the 65 – 75 age banding - https://www.fca.org.uk/data/retirement-income-market-data-2020-21

**Question 7:**

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

a. **at the point at which they access their pension?**

This will differ from scheme to scheme, some will provide little to no additional support on top of what we've already mentioned. Whereas others may provide readily available regulated financial advice which has potentially been funded (normally in part) by the scheme or sponsoring employer.

Most schemes will offer additional support online by the way of tools and various calculators. We've also seen an increase in schemes offering seminar/webinar events for savers which provides the opportunity to interact and engage with their pension and consider their personal options for pensions access.

b. **after they have accessed their pension?**

Further information or support would only really apply if the saver selects partial access (or partial transfer out). The schemes we spoke to indicated they wouldn't offer anything different after partial access/transfer.

**Question 9:**

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

The majority of savers are in some form of lifestyle strategy through the default option. Although some schemes have recently reviewed their defaults, in line with the Single Code regular assessments should take place to ensure the default remains a good choice for the majority of savers.

Some schemes have provided different pathways for the different at retirement options, however, evidence suggests many stick to the default after initial pension access.

**Question 12:**

**What products or lifestyle strategies should providers give?**

Allowing for appropriate de minimis limits, DC scheme providers should offer the full range of at retirement products, backed by appropriate lifestyle strategies.

There's potential for a high number of savers to opt for the path of least resistance. Providers need to ensure both value for money is being offered and any customer vulnerabilities are identified as best as possible.

It would be prudent to make reference to the cost and charges cap. Some schemes may wish to offer maximum flexibility, however, flexibility typically comes with higher costs.

It’s possible some schemes may wish to offer maximum flexibility to members, however, greater flexibility tends to come with higher costs. The current costs and charges cap may be restricting some schemes in this regard.

### Question 13:

### If you don’t provide this, why not?

For many, costs, complexity and resource/time restraints can all be barriers. For others there are simply other priorities (ESG considerations, VFM, Dashboards).

### Question 14:

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

At present there are two main regular pension income options offered to savers:

1. drawdown, where the saver could potentially run out of money in later life
2. an annuity, resulting in the saver handing over their pot to an insurer

Introducing a third regular income offering through CDC may appeal to some.

This idea could develop into the creation of retail decumulation CDC, regulated by the FCA. It could operate by having new saver windows joining each quarter, allowing the offering to grow as time passes.

As mentioned by numerous people across the industry and our response to recent consultations on CDC, communication and checking savers/customers' understanding of the offering will be vital.

Alongside the two main regular pension incomes, there are also fixed term annuities. There may be some behaviour similarities between those looking at CDC and those seeking an annuity. The fixed term annuity provides known income without ‘locking away’ the saver’s pot (unlike a lifetime annuity). The major difference is fixed term annuities pay for an agreed term (typically in years) and therefore the pot could be depleted (albeit knowingly) before death, whereas CDC and annuities could/will pay an income for life.

Current take up of fixed term annuities is low, however, the product could have a larger take up if communicated/offered more widely. There’ll be many savers looking for certainty from income/investment performance without purchasing a lifetime annuity.

### Question 15:

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

The introduction of auto-enrolment and pension freedoms have been good steps forward for savers. However, following these seismic changes, they potentially present challenges at the pension access stage of the journey.

Without development on the 'small pots' issue or the use of Pensions Dashboards (post DAP), many savers will have multiple pots likely with different providers at the point of pension access. This may result in savers potentially having different experiences and options presented to them, adding complexity and potential confusion at a point in the journey where the saver may be making one of the most important, and potentially irreversible, decisions in their lifetime.

With this in mind, it's important any further developments ensure savers make decisions based on all their pension savings (and overall financial position) and not just on a pot-by-pot basis. It would be good to encourage a household discussion around pension access. For far too long pensions have been lost/unclaimed by beneficiaries/partners following the death of a partner. This scenario can be similarly played out after a pension access decision has been made, the purchase of a single life annuity for a married individual might be an example of this. Further development and encouragement to help people to look at household income, where applicable, would be a welcomed move.

Many savers stay in default funds throughout accumulation and although unengaged for large periods, are seemingly happy to trust their scheme is doing the right thing by them. However, since pension freedoms, savers are forced to become engaged at the point of pension access. Should they not engage, then it's likely they'll opt to take 'the path of least resistance'. For many, this is drawdown. From this point on, without engagement or intervention, the saver will probably stay in drawdown until the funds run out or the individual dies, whether a good outcome has been provided or not, is largely down to chance.

We would like to see cross-industry work on a decumulation framework and further developments on investment pathways. Any frameworks (whether they include investment pathways or not), need to give due consideration to revisions/checkpoints. The savers journey or investment strategy will need to reflect changes in their personal circumstances. Savers should be able to move freely within, or outside of, any framework/pathway to external products – or potentially move from guidance to regulated advice.

Finally, some schemes are considering decumulation journeys, which will start with drawdown and end in an annuity later in life. Although this sort of offering will have obstacles to overcome, especially around value for money and ensuring the best available annuity rate is provided, this option ensures savers don't run out of money in later life. It could become a popular option, particularly for those less keen to engage who are looking for a 'do it for me' type approach.

Another potential benefit to default decumulation offerings (if offered and selected early enough in the journey) is they may be able to support the underlying investment allocation ahead of retirement. At present, many savers are arguably de-risked too early in their journey. This can result in savers re-risking after accessing their pension by transferring into a SIPP or potentially drawdown and may result in the fund missing out on potential investment growth. Whereas, if it's known the saver plans to go into X, Y, Z drawdown plan/decumulation framework/journey the underlying investments approaching this point can be more closely aligned to match their intentions.

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

Yes, this sort of solution would be a welcome step forward.

As mentioned in our response to question 15, many savers don't wish to engage or wish to engage as little as possible and are happy to 'trust' their scheme to offer suitable solutions. A structured solution which looks at the end-to-end journey and provides unengaged savers with the option of choosing a 'do it for me' decumulation journey, may well prove popular. Like default accumulation offerings, these structured offerings are unlikely to produce 'best' outcomes, as 'best' outcomes are more achievable through high levels of engagement. However, they should ensure 'poor' or 'bad' outcomes are avoided.

**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?**

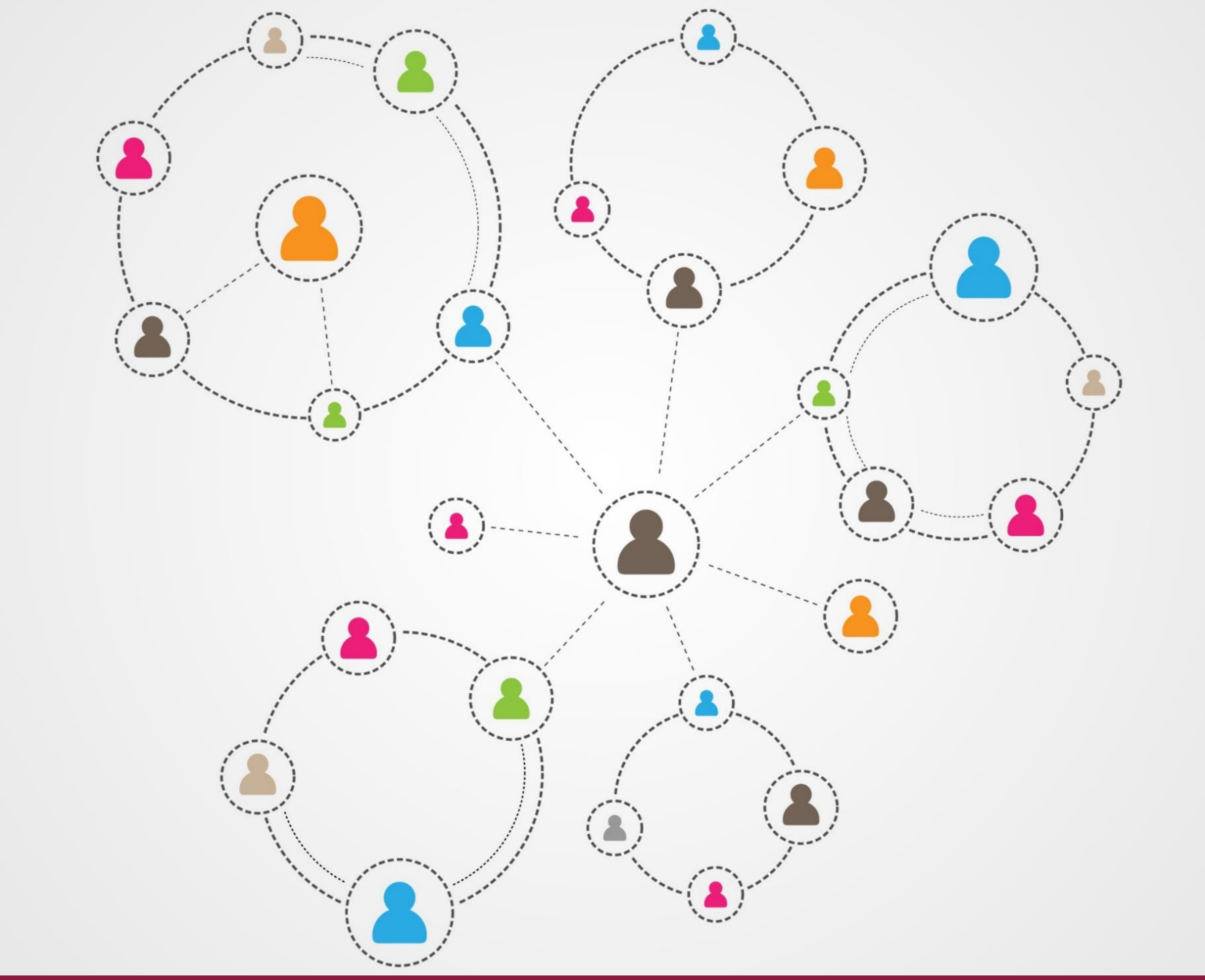
This would likely lead to additional costs, resources and complexities for some schemes. It may also potentially lead to a reduction in transfers outs, resulting in a knock-on effect in the open market.

On the other hand, , it could help savers obtain consistent options when receiving communications from multiple schemes.

**Question 18:**

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

Some schemes have challenges with saver education and understanding. Although having investment pathways available is a good start, some savers are focused on short-term goals, such as accessing tax-free cash. Many decide to ignore the pathways and remain in their current investment strategy, which at this point is typically de-risked.



Get in touch:

info@pasa-uk.com

www.pasa-uk.com