Helping savers understand their pension choices

ABI response to DWP consultation on decumulation in occupational pensions

The UK insurance and long-term savings market and the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy,employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

The UK insurance and long-term savings industry manages investments of over £1.9 trillion, contributes over £16bn in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

For the purposes of this response, 'insurers' refers to insurance, reinsurance and long-term savings companies.

Executive summary

Workplace customers in contract-based schemes and trust-based schemes are very similar and have the same needs when it comes to information, guidance and support. There is a lack of engagement and financial savviness across the customer base in both types of schemes. That is why we do not see any reason for differentiation and instead, we are calling for consistent joined-up regulation. In the interest of consumers and in order to ensure consistency, the Government should participate in the FCA's review of investment pathways and this should be extended to review age 50 retirement communications; and any changes should be implemented by both parties simultaneously. Having different regimes for the same types of customers implemented in many cases by the same providers is burdensome and inefficient, as well as potentially confusing to customers in more than one scheme.

Investment pathways and wake-up packs are helpful and effective policies overall. However, they are far from the whole answer to consumers' lack of engagement and the advice gap. Pension Wise undertakes a key role in helping people understand their pension options and serve DC contract- and trust-based members alike. More can be done to increase its currently low take-up, and the effectiveness of the Stronger Nudge policy implemented on June 1st should be closely monitored.

Personalised guidance and simplified advice are also likely to deliver better outcomes and bridge the advice gap, helping people make the right decisions, grow their pensions and move from cash into investments where appropriate. Brexit and the new financial services regulatory framework offer a timely opportunity to reconsider advice rules and make it easier for providers to help their customers – we urge HMT and FCA to work together on this.

Lastly, providers should be given sufficient notice to implement any policy changes successfully.

Members' expectations and aspirations

Although the first questions in the consultation are aimed at scheme members, our answers are based on evidence from scheme members. They include consumer research, but also the experience of contract-based schemes offering information, support and guidance.

Question 1a:

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?

1. According to the Planning and Preparing for Later Life survey (PPLL) recently conducted by NatCen for DWP, nearly three in ten people (29%) who had accessed a DC pension had not received information, advice or guidance from their pension provider, Pension Wise or a financial advisor. It will be important to understand why people say they did not receive information which, by law, they must be given – it may be that they consider it to be on behalf of their employer, or do not remember receiving it. Introducing wake-up packs for occupational schemes at an earlier age in line with the FCA rules would be one step towards giving members the right information well ahead of their retirement so they have time to consider next steps.
2. Wake-up packs (described as open market option statements in the FCA rules) provide information about retirement options to enable them to make informed decisions. They are summaries which include a fact sheet, appropriate risk warning, whether any guarantees apply and any other information to make an informed decision about open market options. The timing of the wake-up packs ensures that no one misses on this information ahead of accessing their pension. However, during the FCA's Retirement Outcomes Review, it was generally accepted that 4-6 months before a retirement date was too late for this information. Since November 2019, the much earlier start age of 50 (and at 5-yearly intervals thereafter) is aligned with the time they can start accessing Pension Wise guidance, and the statement must only be on one page. Replicating this for occupational schemes would ensure that consumers at the very least receive information on their retirement options at an early stage. We recommend that FCA and DWP jointly review the impact of these early communications, including the impact on Pension Wise appointment take-up, and ideally by measuring responses by customers. The differential regulatory regimes of FCA and DWP should provide a natural comparison of customers' reactions. The FCA rules on these packs will need to be reviewed rapidly in any case, since the increase in normal minimum pension age affects the content in the 5-yearly packs.
3. In addition, we think the taxation of each type of pension option is complicated and difficult for members to understand. It would be helpful if there was a simple indicative tax calculator available that members could be signposted towards, which would give them a 'rough idea' of the tax consequences of each retirement option. Members could also benefit from guidance on the impact on state benefits of the various types of pension decumulation, including signposting to the availability of pension credit. Under current rules, any such information has to be neutral so it is not considered advice. Members could also benefit from more information on the ability to consolidate small pots. However, information only can only go so far in terms of translating into better outcomes and with only 8% of adults receiving financial advice, guidance and personalised guidance are very important (see question 2).

Question 1b:
Do you feel that this information is clear and concise, and if not, how could it be improved?

4. Some financial and pension-related terms and concepts may be unfamiliar to some and may find information about pensions confusing. According to DWP PPLL, one in five (20%) said they found it very or fairly difficult to keep track of their pension savings, with the younger generation, who are more likely to have DC pensions, more likely to find it harder. When asked why, a majority of those said that they found information about pensions confusing (58%). This was true even of people with high financial literacy who found it difficult to keep track of their pensions, 63% of whom said they found information about pensions confusing.
5. It is important to show how some simple financial concepts will affect the value of people's pots and ultimately their standard of living, e.g. investment growth and risk, impact of inflation, withdrawal rates, costs and charges and how marginal tax rates work. Consumer research on investment pathways shows that some people are

confused about some pension terms and about the term 'pathway' (see more on this in answer to Question 10).

6. A good deal of progress has been made in simplifying language and improving the design to help consumers to focus on key information. This is an area where providers can go beyond the regulatory minimum and use innovative communications tools to help consumers improve their understanding of these concepts, as well as encouraging the use of Pension Wise and regulated financial advice. The ABI's *Making Retirement Choices Clear* guide from 2016 attempted to introduce simpler phrases for the new options; this had some success, with the adoption of its principles among our members and more widely, and minimising the use of legislative terms such as UFPLS. Consistency would likely help consumers engage better considering most people will have different pension pots. But this has limitations, including the complexity of the system itself; concepts like the Money Purchase Annual Allowance are unnecessary complexities that can have negative consequences for customers
7. In recent years, providers have also enhanced the support they offer with more tailored communication, layered information and greater use of digital.
8. This year, the ABI partnered with Plain Numbers to help people who struggle with numeracy to better understand customer communications. Plain Numbers works with firms to help their staff present and explain numbers as clearly and simply as possible to help improve customer understanding.

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?

9. We hope that once Pensions Dashboards are embedded, it would enhance customer interactions and provide a mechanism for scheme members to access better support from schemes.
10. Pension Wise guidance is helpful and more actions could be explored to prompt and encourage people to use it. Pension Wise receives great feedback from users, with 94% saying they found it "very or fairly satisfying"[1]. Perhaps more importantly, Pension Wise has been proven to improve people's understanding. Pension Wise user evaluations have found that users' understanding of their pension decumulation options is significantly better than non-users' – with 70% of users correctly answering questions on this topic compared to 43% of non-users.[2] We hope the Stronger Nudge introduced in June 2022 will increase the numbers of people receiving Pension Wise guidance before accessing their pensions; initial anecdotal feedback indicates that the increase is modest. If take-up remains low, earlier nudges are likely to be needed and new trials should be used to identify effective approaches, including auto-booking of impartial pension guidance appointments.
11. Standard non-tailored guidance is clearly helpful, but not enough. Upon using Pension Wise, many are left unsure of what their next steps should be: 33% of people said they were unsure how to act on the information received. 54% took no action, compared to 29% in the case of those who received advice. [3] The most popular action (23%) taken by those who received advice was to increase their contribution to a pension pot. Only 8% of those who received Pension Wise decided to do so. There may be other factors that influence this gap, including wealth, but it begs the question of what more could be done to close it. Personalising guidance is a promising approach, but providers, employers, trustees and MoneyHelper are limited in how far they can personalise the information and guidance they provide.
12. The existing literature on this subject also indicates that there is consumer demand, and need, for greater support. New research by Smart Pension found that "there is an expectation that the provider will play a key role in providing this support digitally." Dominic Lindley for Pension Bee found that: "Many people have little idea about sustainable withdrawal rates and tend to overestimate the amount they can withdraw without running the risk of exhausting their DC pension fund. One third said that a sustainable withdrawal rate was 8% or higher and one in seven said that they didn't know." Ignition House for the People's Pension and State Street found that: "Once they

[1] ABI, 2021, Future proofing the freedoms Supporting customer decisions about pension withdrawals: https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf

[2] Money and Pensions Service, 2020, Pension Wise service evaluation 2019/20: https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf

[3] SMF, 2022, A Guiding Hand: https://www.smf.co.uk/wp-content/uploads/2022/02/A-Guiding-Hand-Feb-2022.pdf

have taken the plunge into drawdown, our members felt that they had been left to their own devices to decide how to take their money"; and that "drawdown members overwhelmingly found the idea of a guided drawdown product very useful." From our own research with members, providers believe that they have a clear responsibility to help non-advised customers – more so than government or regulators. However, they face limitations in what they can do within the bounds of guidance without affecting customer relationships[4].

13. Therefore, a key focus of the DWP's review of evidence and practice in this area should be to work with the FCA and HM Treasury to agree how the advice boundary can change to improve customer outcomes. This is likely to involve both changes to the FCA's perimeter guidance, and changes to legislation to permit more personalised guidance. Brexit and the new regulatory framework for financial services provide a timely opportunity to deliver an advice and guidance regime that better addresses customer needs such as encouraging adequate saving or guiding on investment fund choices to improve uptake of consumers investing rather than remaining in cash.
14. As part of reviewing the advice and guidance boundary, advice rules should also be simplified for a defined set of scenarios and consumer needs in order to bridge the advice affordability gap, estimated at 5.8m people[5], which is likely worsening due to the increase in the cost of living. Simplified advice would allow providers to gather only facts relevant to the advice being given and face proportionate redress and liability, and in turn offer a more affordable, accessible, one-off type of advice that consumers need and want.
15. We also urge the Information Commissioner's Office to reconsider their direct marketing guidance that is currently stopping providers from contacting their customers to make them more aware of actions they could take to improve their pension outcomes, such as encouraging them to increase their contributions, or consider consolidation into a lower cost product.
16. Signposting members to preferred products or solutions in their scheme or another scheme could also help non-advised and non-engaged customers with complex decumulation decisions, while continuing to encourage and enable customers to shop around. According to PLSA, 71% of savers in defined contribution (DC) funds want help to choose how to access their pension, including some wanting to be guided by their scheme to a ready-made retirement income option.[6] We think there is merit in pursuing this approach, to use the tendency to take the path of least resistance and combine principles such as flexibility at the beginning of the retirement, guaranteed income in later life and multi-pot options to take account of unexpected needs or care. However, any quasi-default solution will be wrong for some customers, and any proposal of this kind needs careful consideration about how it will work in practice and from a regulatory perspective. There is inevitably some decision-making required by customers, at the very minimum when they want to access their pension; and also key considerations about inflation and providing for dependents.
17. We suggest that the Australian policy requiring superannuation schemes to publish a retirement income strategy should be monitored for possible relevant learnings, whilst bearing in mind the differences between the UK and Australian models.

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?

18. MoneyHelper and its service for decisions about accessing pensions, Pension Wise, are key sources of information and support. As mentioned above, more needs to be done to encourage take-up of Pension Wise and doing so well ahead of a savers' point of access, when its impact is likely to be the greatest. This is of equal importance to savers in trust- and contract-based DC schemes and the DWP should ensure its work with FCA and MaPS caters for the needs of both, as consistently as possible.

[4] ABI, 2021, Future proofing the freedoms Supporting customer decisions about pension withdrawals: https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf
[5] Open Money, 2019, The UK advice gap: https://assets-global.website-files.com/5dcfc5ecafa6ed691b341c4b/5e0f67d32aef55698c39ca4f_OpenMoney%2C%20The%20Advice%20Gap%20Report%2C%202019.pdf
[6] PLSA, 2020, DC Decumulation: Final Recommendations: https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Summary-Oct-2020.pdf

The current position in the trust-based market

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?

19. As well as two communications in the immediate run-up to retirement, some schemes also provide warm-up letters further in advance of the member's planned retirement age[7].
20. Providers of trust-based occupational schemes provide a mix of information for trustees to enable them to keep their members informed and information provided directly to member schemes.
21. It would be helpful for the DWP to clarify the responsibilities across trustees and providers of occupational schemes in delivering communications, providing support and engaging members with their pension options. This could help resolve some of the complexity currently experienced due to data protection and rules around who has the right to communicate. Codifying responsibilities could help create consistency and help trustees deliver on their obligations to act in the best interest of their members.

Question 6a:

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

22. Ensuring those in their 40s are saving at a good rate to be able to get the standard of living they are hoping for should be the primary focus of the information received by this age group. SMF analysis[8] showed that the size people expect their pension pot to be at retirement is out of sync with what they are actually likely to need given the desired retirement income they have in the survey.
23. The Mid-Life MOTs could make a significant difference in focusing people's attention towards their savings, as research shows that action is most likely to follow so-called 'teachable moments'[9]. We welcome the Government's expansion of the Mid-Life MOT via MaPS, Job Centres and piloting it via private providers.
24. In addition, in their 40s, members should be informed of the age at which they can access their benefits, but also the consequences of doing so early, as well as the impact of lifestyling and how important it is to select the right retirement age. They should also be informed about the impact of inflation on their pensions and providing for their dependents.

Question 6b:

What information do members need from age 50?

25. DWP research shows that the most common decade for people to start planning for the transition from work was in their 50s[10], so this would appear to be the best decade for engaging people with retirement access decisions. People should be told of their access options from age 50 so that they can start to think about the point when they need to draw on their pensions for income and they should be automatically connected to Pension Wise.
26. The information people need from around age 50 (and especially 55) is more varied than that at younger ages, and depends on the age, behaviour and circumstances of individual customers. Being able to tailor information depending on the age for instance is likely to lead to better outcomes.
27. The ABI published a guide, *Finding the Right* Path, in 2020, setting out how information could be tailored at different ages, as well as combining information about investment pathways and sustainable income[11]. For those between 55-65, who are less likely to have fully retired, messages focused on the following would be more appropriate:
    - Making your income last and the consequences of taking benefits early

[7] ABI, 2019, examples included in Communications through the life course: https://www.abi.org.uk/globalassets/files/publications/public/lts/2019/abi_bro7215_comms_thro_life_v5.pdf
[8] SMF, 2022, A Guiding Hand: https://www.smf.co.uk/wp-content/uploads/2022/02/A-Guiding-Hand-Feb-2022.pdf
[9] PPI, 2017, Consumer engagement: the role of policy throughout the life-course
[10] Planning and Preparing for Later Life: Technical Report
[11] ABI, 2020, Finding the Right Path, https://www.abi.org.uk/globalassets/files/publications/public/lts/2020/findingtherightpath.pdf

- Reduction in Annual Allowance if accessing pension flexibly
- The value of saving, including awareness of employer contributions
- Withdrawals are taxable
- Beware of scams
- Guarantees and special features

28. For those 65-75, who are likely to have retired, but are still in their independent phase of retirement, messages such as the following would be more appropriate:
    - Lifetime allowance check
    - Tax free cash reminder
    - In the case of contract-based schemes, keeping investments under review
29. For those 75+, who are more likely to be in the decline phase of retirement, messages such as the following would be more appropriate:
    - Tax risk to beneficiaries
    - In the case of contract-based schemes, keeping investments under review
    - Advantages of securing your income
    - Lasting power of attorney

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?**

At the point at which they access their pension

30. Some big schemes offer retirement seminars as they approach members' retirement age.

After they have accessed their pension

31. In contract-based schemes, consumers receive annual statements which provide information necessary to review their decision and state that if their circumstances or retirement objectives have changed, it may be in their interests to review their product choice and investment choice and take regulated advice or seek guidance. Consumers also receive five-yearly communications on pathways to ensure they are on the right path. There is currently no requirement for occupational schemes to provide annual statements to customers in drawdown.
32. There are many ways in which providers could point out to their clients any inconsistent or potentially risky behaviour using the information they observe and more often than at five-year intervals, and this is also included in the FCA's investment pathways rules. For instance, warning they are withdrawing from their pensions at a higher rate than they intended or is sustainable, or withdrawing when they had chosen Option 1 (no plans to touch their money in the next five years). However, any such communications have the potential of crossing over the boundary between guidance and advice and may be seen as a personal recommendation. That reinforces the evidence that changes to the advice and guidance boundary are needed, so providers can steer customers towards better outcomes.
33. The ABI's 2021 report, *Supporting Customer Withdrawal Decisions*, set out ways in which providers help, and would like to help, customers to make decisions about withdrawals throughout retirement: when and how much to access, and when to secure a guaranteed income[12].

[12] ABI, 2021, Future proofing the freedoms: supporting customer withdrawal decisions https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf

Question 8a:

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

34. The variety of decumulation options tends to differ depending upon whether the pension scheme is a new or legacy product. For legacy occupational pension schemes, members often have to transfer to another pension scheme in order to access flexible pension benefits such as drawdown.
35. According to FCA data (2017H2 - period ending March 2018), there were 50 drawdown providers, 37 UFPLS providers and 17 annuity providers. ABI retirement income data from 2021H2 was gathered from 16 drawdown providers and 13 UFPLS providers, with quarterly pension annuities data from 13 annuity providers.
36. ABI data indicates that out of all options offered, most pots which were accessed were fully encashed. The next most popular option was drawdown followed by annuities and then, by UFPLS.
37. For those unadvised and unguided by Pension Wise, full encashments followed by drawdown and UFPLS are the most popular. Those advised are most likely to choose to drawdown, followed by full encashment and then by taking UFPLS.

Question 8b:

Do these options or products differ depending on pot size?

38. ABI data shows that out of all full encashments, a majority were under £10k and a further quarter between £10k and £30k. Drawdown was a more popular option for pots over £50k than under. UFPLS was fairly split and in much lower numbers overall. Most annuity sales were with pots over £40k, while a quarter of total sales were with pots under £20k.
39. There are sometimes minimum transfer values if the member wants to access greater flexibility elsewhere, but some providers will accept any pot size either for transfers in, or for entry into drawdown.

Question 9:

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

40. About half (51%) of customers used an investment pathway during the first quarter of 2022. Most of the rest (43%) chose to remain in their current investments, with just about 1 in 10 (7%) choosing to select their investments themselves.

41. The most popular pathway was Option 1 (No plans to touch their money in the next five years - 36%), followed by Option 4 (I plan to take out all my money within the next 5 years - 34%) and Option 3 (I plan to start taking my money as a long-term income within the next 5 years – 25%). 5% selected Option 2 (I plan to use my money to set up a guaranteed income within the next 5 years).

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?

42. Preliminary ABI data shows an almost even split between those who opt for pathways and those who remain in current investments in most quarters, and a split between the pathways chosen. The fact that customers are choosing a range of options validates the FCA mandating an approach based on choice. For example, it makes clear that a single default would have been wrong for either customers choosing Pathway Objective 1 or 4. But the level of use varies significantly from provider to provider, and within providers depending on the type of business. This may be an indication of the types of consumers that they serve, with some more likely to have already made an active choice about their investments, making pathways less relevant to them. These differences should be explored further.
43. However, before introducing investment pathways to occupational schemes, the Government should wait until the findings of the FCA review into investment pathways, which was expected to start in spring 2022, are available, and implement any changes simultaneously. When designing the consumer journey around investment pathways in occupational schemes, due attention should be given to the role of trustees to ensure the sequencing is practical and logical and a clear division of responsibilities between the provider and the trustees is set out.
44. Provider research focused on investment pathways found that customers largely contact the provider to access pensions in order to access the tax-free cash or to consolidate. This is unsurprising and reinforces the reason for introducing investment pathways.

45. Early findings from the same research show there may be a need for some extra information around the process of investment pathways. Information they receive prior to going through the options via the call or digitally would have been useful for some. Some don't realise that they need to make further decisions in order to access the PCLS. For some, making their investment pathways and risk-related decisions on one call or during their online application, felt somewhat pressured to make unexpected decisions they have previously not considered. There is also merit in ensuring savers receive pensions guidance before coming into contact with pathways, in order to understand their full range of options.
46. These research findings reflect that customers do not consider what their next steps are before going through the investment pathways journey. That may reflect a lack of engagement with the wake-up packs and missing out on Pension Wise guidance, which the Stronger Nudge policy may address to some extent. To minimise risks stemming from this, providers could send customers a summary of the investment pathways journey before or at the start of the decision process, strongly recommend using Pensions Wise guidance or advice and could also offer time to reflect and delay the decision. More widely, there are fundamental engagement challenges to address – many customers are not aware that their pension is invested at all.
47. The same research also shows that some do not understand the process fully and are confused by certain pension and financial terms, despite praising the staff for explaining their options. The word 'pathway' was not always understood, and it became meaningless and confusing. There may be scope to use clearer or more straightforward terms. This may also reflect a lower level of financial literacy but also the lack of engagement with pensions during the accumulation phase. The industry is attempting to address both of these issues, not least via the Pensions Engagement Season and revising communications with the Plain Numbers approach.

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?

[We have a deadline extension on this question and will send our position on NEST separately.]

Question 12:

What products or lifestyle strategies should providers give?

48. In their Guided Retirement Income Choices briefing[13], the PLSA proposed that schemes should be required to signpost savers to a range of retirement solutions either inside or outside the scheme and guide them into a suitable product mix where they do not take active decisions themselves. We support DWP in exploring this proposal further. There is a trade-off between encouraging members to shop around to get the most competitive deal on the market and sign-posting them to make it easier for those unengaged. Encouraging members to get guidance and advice to make the right decision for themselves should come first, but where that does not happen, we see merit in the idea of a ready-made blended solution that addresses the different needs of flexibility and guarantees to avoid bad outcomes for the non-engaged. Signposting to another provider under the current rules can be seen as a personal recommendation (advice) and thus, such a proposal may need either a change to the rules or overriding them for this purpose.

Plans for the future – schemes

Question 14:

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

49. The possibility of offering CDCs should not be restricted to trust-based schemes and both conduct and prudential regulation of contract-based schemes should be consistent with occupational schemes to ensure fair competition.

[13] PLSA, 2021, Guided Retirement Income Choices: https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/Building-on-the-Pension-Freedoms-Guided-Retirement-Income-Choices.pdf; more detail in PLSA, 2020, DC decumulation: Final recommendations: https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf

50. Careful consideration will have to be given to designing decumulation CDCs to avoid well-informed or advised consumers buying out in a market peak disadvantaging the others in the scheme. Similarly, there is the practical sustainability challenge stemming from the risk of a large number of members existing after a market crash, for instance.
51. Nevertheless, CDCs could potentially deliver significant benefits to occupational DC scheme members, and we want to continue engaging with DWP on options for expanding CDC framework to decumulation.

Question 15a:

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

52. In the absence of DWP regulation, it is likely that more master trusts compete on the basis of different decumulation options; this may prompt innovation, but will lead to inconsistency. Current outcomes for members of occupational schemes are entirely unclear as no data is collected nationally on this, but we would expect that the most common action taken would be to access their pension as a single lump sum, as in many cases that is not only the simplest option, but the only option available to them.

Question 15b:

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

53. Not applicable.

Question 16:

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

54. Yes, the pathways have been shown to work overall. However, DWP should work with the FCA to look more broadly at whether a choice architecture along the lines of investment pathways could apply earlier in the process, so that it captures more customers earlier, and not just those who have already taken a decision to access tax-free cash and enter drawdown. For instance, this could be when a customer first enquires about accessing their pension.
55. The investment pathways are broadly working as intended for the customers they are intended to reach, with an almost even split between customers who choose one of the pathways and those who self-select or stay in their own investments; and a split between the pathways chosen (data varies between and within providers and with some evidence pointing to active investors and workplace pension scheme members being more likely to choose to remain invested where they are). They are an effective way of addressing the mismatch of investment strategies with customers intentions to use their savings in the cases where they are non-advised and non-engaged. It is in the benefit of members of occupational schemes for their schemes to introduce investment pathways alongside any changes arising from the FCA's expected review.
56. However, it is important to note that they are not a silver bullet, only apply in non-advised drawdown, and would not solve the lack of engagement and advice gap, nor the arguably greater challenge of withdrawal decisions. There are also concerns that they are overly prescriptive, and apply to more engaged customers to whom they are not relevant.
57. Moreover, such a structure is only practical for schemes above a certain size. The FCA acknowledged this with an exemption for providers with less than 500 non-advised drawdown customers a year. We would like to see similar exceptions applied to trust-based schemes as FCA regulated ones.

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?

58. Consistency across contract-based and occupational schemes is essential to ensure a level playing field, with consistent outcomes for customers, and avoid regulatory arbitrage. Some of our members which run occupational schemes have already implemented investment pathways in them. Having a dual regime would also be an unnecessary burden for those providers who operate both contract-based and occupational schemes.
59. In addition, smaller schemes, as is the case for FCA regulation, should be exempt from offering investment pathways.

Question 18:

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

60. Investment pathways are working well overall (see answer to Question 10), but any findings from the FCA review should inform whether there is a need for further improvements, which should be implemented by FCA and DWP simultaneously.
61. One challenge is that where a member is presented with the option of investment pathways or remaining in their current investments, many will view and choose the latter as the simpler option when investment pathways may be the better solution for them.
62. One aspect to be mindful of is that investment pathways are not relevant to certain firms or customers such as platforms and their clients. Although this will not be an issue for the trust-based schemes, it may be important when comparing data with occupational schemes if pathways are implemented by DWP.