

# Consultation Response

## Helping savers understand their pension choices

Department for Work and Pensions

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## **About this consultation**

This consultation is in response to the Department for Work and Pensions (DWP's) and the Pensions Regulator's (TPR's) call for evidence conducted in 2022 about the support and products required by savers in trust-based pension schemes as they approach retirement, now and in the future.

## **Key points and recommendations**

- Age UK believes that trustees have an important role to play in helping savers with their pension decumulation decisions, being well placed to understand the profile of their members and obliged to act in members' interests.
- The measures outlined in the paper are welcome, however many savers will need a far greater level of ongoing support throughout their retirement.
- The 'north star' vision for the pensions system should be whether someone's pension savings deliver a decent standard of living throughout their retirement. Only this can truly mean that the pensions system is fulfilling its purpose.
- Age UK believes that 'retirement income pathways' should be developed to guide people throughout their later life financial decision-making. Industry and Government should collaborate to achieve this.
- Freedom and choice has transferred a huge amount of risk onto individual savers, which puts people's long-term retirement income in jeopardy. Mitigating risks and behavioural biases should be an important driver of this work.
- The current set of proposed questions for savers focuses on the here-and-now. The DWP/TPR should include an additional question to encourage people to assess their likely future income needs.
- The DWP should continue to explore how to get more people to use Pension Wise.
- There is still a lack of support consumers, especially those without access to financial advice. We would like to see the Government and regulators encourage greater innovation from industry, for example the introduction of tools to help people draw down their savings at a sustainable rate.
- It is important that savers who might be eligible for certain products, such as an enhanced annuity, are directed towards them.
- We welcome the DWP's decision to allow Nest to deliver a greater range of retirement income products. This will be of great benefit to Nest's 11.75 million members.

## **About Age UK**

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

## **1. Introduction**

Since the introduction of the freedom and choice reforms in April 2015, the pensions decumulation landscape has changed beyond recognition. While some people are able to use their savings flexibly, in a way that meets their needs, many others are bamboozled by the choice available and are likely to be taking decisions that are not in their long-term interests.

Getting the decumulation framework right (i.e. helping people access and use their pension savings) is of the utmost importance, and in the absence of any large-scale reform it is important the Government and the regulators keep making incremental changes to improve outcomes for people throughout their later life.

Ultimately, we believe that 'retirement income pathways', which help people navigate through a range of products and decisions across their lifecourse, will be necessary to ensure people are taking beneficial decisions (this is, however, not to suggest that other measures are not also materially important). Failure to protect people's long-term interests and minimise the financial and behavioural risks to which they are exposed is a potential significant failure of public policy, and in stark contrast to the success of automatic enrolment in the accumulation phase.

However, in the meantime it is welcome that the DWP is considering bringing including pensions in decumulation into the Value for Money (VFM) framework. As we argued in our response to the VFM consultation earlier this year,<sup>i</sup> the purpose of a pension is to provide an income throughout retirement and there is little point delivering a good outcome to a saver only for them to make a poor decision that reduces or even decimates their standard of living for the rest of their lives.

The 'north star' vision for the pensions system should be whether someone's pension savings deliver a decent standard of living throughout their retirement. Only this can truly mean that the pensions system is fulfilling its purpose.

Trustees have a crucial role to play in delivering a good system of decumulation. Many trustees of DC schemes will already have the skills and knowledge necessary to help their members, however others are likely to need some degree of assistance. We believe these measures are a step in the right direction that will improve outcomes for members of trust-based schemes.

## **2. Consultation questions**

### **Question 1 – Should it be up to trustees to determine the other suitable suites of products?**

Age UK believes that trustees have an important role to play in helping people make decisions affecting their retirement income. Pension scheme trustees are well placed to understand the profile of their members and their fiduciary duty means that they would be obliged to consider how to help members transition to retirement in a way that best meets their needs.

As trustees would not be able to give personalised product recommendations to scheme members, their actions would be limited, however clear links to financial advice or guidance services like Pension Wise would overcome some of these barriers.

It should not, however, restrict efforts to design retirement income pathways. Age UK sees pathways as being the safest route to help the majority of savers through the point of access and on to the best-fit retirement outcome. We believe the DWP should promote the design and implementation of these pathways among trust-based schemes.

The DWP has an opportunity to help savers into retirement. For example, schemes could assess members' needs, and design different 'glidepaths' to give people different options at different points in their journey, with checkpoints to ensure they are still the best course of action. Such pathways or glidepaths would follow on naturally from the pre-retirement Investment Pathways.

We do not believe there should be an exemption for small schemes. This should be incorporated into the Value for Money framework and if trustees are unable to deliver this service, they should consider whether the scheme should continue.

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

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

Issues like costs and charges and investment strategies should be included. In addition, personal factors about members' health and lifestyle are important, for example if someone has a chronic illness they may be entitled to an enhanced annuity.

The key issue here is the management of risk. Freedom and choice has transferred a huge amount of risk onto individual savers, which puts people's long-term retirement income in jeopardy. Factors beyond an individual's – or even an investment manager's – control could have a significant impact on someone's standard of living.

As the Financial Conduct Authority's Financial Lives survey shows, 56% of people accessing a pension in the last four years did not do any external comparisons prior to accessing some of the money and leaving the rest invested. It is unclear whether those that did shop around improved their outcomes. It is evident that whether through ignorance or apathy, most people are not likely to shop around the marketplace to improve their retirement outcomes. As such, people need far more help and support with navigating the marketplace, and we believe that 'retirement income pathways' must be developed to allow people to access a suitable suite of products and minimise the risk associated with freedom and choice. We consider that this would enhance the freedom and choice agenda, rather than undermine it. Trustees have a vital role to play in developing product pathways within their scheme.

Schemes must adhere to the emerging Value for Money framework when taking into account what factors might affect their members in retirement, and focus on how best to minimise the different risks, for example sequencing risk and longevity risk, which people are exposed to. Counteracting negative behavioural biases, for example by encouraging people to think longer-term, should also be encouraged.

**Question 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?**

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

**Question 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.**

The questions posed (copied below for reference) only give a snapshot of what a consumer wants. So for a decision about the immediate future, they seem reasonable. However, needs change over time. People may be more likely to want the security of a steady income once they reach an older age – and it may well be in their best interests, even if they do not appreciate it.

- Do you only want a regular income?
- Do you only want flexible access to your pension benefits?
- Do you want a combination of both?
- Do you want to do something else?

This is again where ‘retirement income pathways’ come in. It is difficult to see a comprehensive system without placing greater emphasis on a savers future needs. Therefore we propose adding a question:

- “10 years from now [or, when you turn 75], are you likely to want to use your pension savings differently, for example receive a stable income?”

The purpose of freedom and choice is to allow people dynamic ways of managing their savings. If people are inappropriately advised at the outset, and steps are not taking by the industry and its regulators to minimise behavioural biases, decisions will only benefit consumers in the short-term leading to poor outcomes in later life.

Furthermore, most consumers are not aware of all the risks they face (e.g. longevity risk, where people typically underestimate their life expectancy<sup>ii</sup>) making it very difficult for them to plan how best to use their savings. Any point-of-access communication needs to be linked to a source of advice or guidance, with a particular focus on getting savers to use Pension Wise.

**Question 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?**

We believe the Value for Money (VFM) framework for decumulation products should reflect the framework being designed for the accumulation phase. This means including the same measures: investment performance; costs and charges; and quality of services.

We also proposed adding governance, the quality of which can make a material difference to savers outcomes.

However, it was noted in the VFM accumulation consultation<sup>iii</sup> that the framework is being designed with the pensions industry and employers in mind, rather than consumers. With individuals being responsible for their own decision-making in decumulation, these aspects of any framework need to be accessible to a mass audience, which give it a different context and purpose. This will need to be carefully considered, with any barriers and challenges, many of which were raised by the DWP in relation to the VFM framework, being addressed.

This should include assessing whether the VFM framework is the most suitable way of helping people make decisions in practice. We believe that given the context, it will only

help savers accessing their pension if it is implemented in conjunction with retirement income pathways.

**Question 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?**

Age UK's 2019 report, Fixing the Freedoms<sup>iv</sup>, looked into innovation and support in the retirement income marketplace since the pension freedoms were introduced in 2015. It highlighted a big divide between advised and non-advised customers, in particular around the safeguards that were available to help people make the best decisions.

*“Consumers accessing income drawdown without advice are not being given the right level of help or support. Even some pension providers acknowledged that, at the moment, the best way to minimise regulatory risk was to say nothing to their customers. As one IFA put it – we are sending people out into potentially stormy waters unprepared.”*

It recommended more emphasis being placed on introducing tools to help non-advised customers, and other measures including simplified charges and a charge cap on income drawdown products.

On the specific safeguards that consumers would find useful, the report recommended:

- The regulators and pension providers should provide guidance to consumers about what represents a sustainable withdrawal rate and a traffic light system should be developed to highlight the risk of running out of money.
- Pension providers should develop new tools to help people budget, control their spending and set aside money for future goals. Once consumers have made a plan, specific alerts can be used if consumers are departing from it or at risk of running out of money.
- Such tools must be available for non-advised consumers, as well as those who are advised.

We are concerned that little has changed over the past five years. The majority of our report's recommendations still ring true. Non-advised customers continue to take decisions based on their own (often very limited) knowledge, which are likely to be sub-optimal, while efforts to focus on improving customer engagement continually fall short.

**Enhanced annuities**

It is also important to ensure that people in poorer health are directed towards the right products. In particular, some people will be eligible for enhanced annuities, which will provide them with a higher income. Given many of this group will have a disability or health condition which incurs additional costs, it is essential that they are not being short-

changed when it comes to choosing a retirement income product. The Government and regulators must put in place measures to ensure that everyone who may be eligible is directed accordingly.

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

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

Age UK believes that part of this approach should consider how to get more savers to use Pension Wise in the approach to their retirement. Pension Wise is an excellent service that is proven to help people better understand their retirement income options,<sup>v</sup> however we are concerned that too few people are utilising it – the FCA's Financial Lives survey reports that among people who had accessed a DC pension in the last four years, only 18% (13% telephone, 5% face-to-face) had had a conversation with Pension Wise.<sup>vi</sup>

The recent 'stronger nudge' reforms are improving take-up, but are failing to create a mass change in behaviour. With many people being unsure about their retirement income options, an obvious part of the solution is to get more people to Pension Wise.

Age UK, alongside other consumer organisations, has proposed the trial of an auto-appointment system. We urge the DWP to carefully consider this and any other options to create a sea-change in usage of Pension Wise.

We also believe there is no time to lose in implementing any new proposals. It is now eight years since the freedom and choice reforms were implemented and as a result of the inadequate support up to this point many consumers have lost out. The industry has had much time to consider and adapt to the changing environment, and while schemes may need some time to implement specific regulatory directions, the overall direction of travel is clear and it should not be difficult for schemes to make changes to their offer. We urge the DWP and TPR to push ahead as soon as possible.

**Question 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?**

We are very pleased that the DWP has agreed to allow Nest to deliver decumulation products. With nearly 11.75 million scheme members, many of whom are lower earners and with smaller pots, it is essential that they do not need to transfer out to achieve a good outcome.



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<sup>i</sup> <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/money-matters/consultation-response-value-for-money--department-for-work-and-pensions-financial-conduct-authority-and-the-pensions-regulator.pdf>

<sup>ii</sup> <https://ifs.org.uk/news/individuals-underestimate-their-chances-survival-through-their-50s-60s-and-70s-potentially>

<sup>iii</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1168812/value-for-money-a-framework-on-metrics-standards-and-disclosures.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1168812/value-for-money-a-framework-on-metrics-standards-and-disclosures.pdf)

<sup>iv</sup> <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/33a.-fixing-the-freedoms---age-uk-discussion-paper-june-2019.pdf>

<sup>v</sup> Money and Pension Service Annual Report and Accounts 2021-22

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1114994/money-and-pensions-service-annual-report-and-accounts-2020-2021-large.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1114994/money-and-pensions-service-annual-report-and-accounts-2020-2021-large.pdf)

<sup>vi</sup> FCA Financial Lives Survey (2023), Pension Decumulation table 90