

Consultation Response

The stronger nudge to pensions guidance

Department for Work and Pensions

Contact:

christopher.brooks@ageuk.org.uk

All rights reserved. Third parties may only reproduce this paper or parts of it for academic, educational or research purposes or where the prior consent of Age UK has been obtained for influencing or developing policy and practice.

Age UK
Tavis House
1-6 Tavistock Square
London WC1H 9NA
T 0800 169 80 80 F 020 3033 1000
E policy@ageuk.org.uk
www.ageuk.org.uk

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is Tavis House 1-6 Tavistock Square, London WC1H 9NA.

About this consultation

The Department for Work and Pensions (DWP) is consulting on the implementation of the 'stronger nudge' pilots, that were designed to encourage more people to take up the offer of a Pension Wise appointment prior to accessing their defined contribution pension savings. These proposals place duties on trustees and managers of occupational schemes to refer members to Pension Wise and ensure they have either received it or opted out of receiving it before accessing their pension.

Key points and recommendations

- While the 'stronger nudge' proposals are a step in the right direction, it will still be a minority of savers who access guidance, a position which is woefully inadequate and fails to meet the policy intention.
- The DWP should pilot an auto-appointment system as soon as possible. We are confident that this system, which will automatically book a Pension Wise session prior to pension access unless the saver opts out, will significantly increase the number of people accessing Pension Wise.
- There is growing support from across consumer groups, industry and elsewhere for this approach to be tested.
- Pension Wise is a successful and effective service, and the Government and regulators should work together to get as many people as possible using it. We do not understand why there is such reticence to take forward more dynamic measures, especially the proposed auto-appointment system.
- We agree the opt-out should be a distinct process. Exemptions from this process should be minimised, and we believe even those who have taken regulated financial advice should still have to opt out.

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.

Introduction

When the ‘freedom and choice’ pension reforms were announced in 2014, a key part of the proposals was the ‘guidance guarantee’. This was in recognition that many people find pension decision-making extremely difficult, and was considered to be an essential component of ensuring that the reforms worked rather than an optional extra. The then-Chancellor George Osborne MP stated:

“We’re making sure that people have the right support to make their own choice about how best to finance their retirement and I’m pleased to confirm that everyone with defined contribution pension savings reaching pension age will get free and impartial guidance on their range of available choices at retirement.”¹

This unambiguous statement – that people “will get” the guidance – is far from the position we now find ourselves in, where only a small minority of about one in seven savers are accessing Pension Wise. While the stronger nudge proposals are a step in the right direction, they still leave us woefully short of making the original vision of everyone accessing guidance a reality, and it beggars belief that the Government and regulators are not taking further and greater steps to ensure that Pension Wise usage becomes commonplace.

While no longer having to purchase an annuity is welcome for many savers, the difficulty of having to choose an appropriate retirement income product in a notoriously complex and uncompetitive marketplace is an albatross around the neck of many defined contribution (DC) savers. The majority of people have not previously interacted with their pension, have very limited knowledge of their options or industry products, and are laden with behavioural biases that affect their choices.

Age UK’s 2019 report ‘Fixing the Freedoms’ identified that consumers are now expected to:

- access Pension Wise guidance or seek independent financial advice
- maximise state pensions and means-tested benefits
- gain a full picture of all pension and other assets
- consider merging small pots
- be aware of taxation
- consider using DC pensions to repay expensive debt
- maximise income from other financial assets
- decide on which retirement income product they want and whether they prefer the lower secure income from an annuity or the potential for a higher income from income drawdown balanced by the risk of running out of money

- take difficult decisions about income drawdown including where they should be invested and how much they want to withdraw each year, reviewing their choices regularly to ensure that they are on track.
- shop around for an annuity and declare medical details to qualify for a higher rate.ⁱⁱ

Fixing the freedoms concluded:

“The Government and the FCA cannot expect that the market will deliver innovative, appropriate and good value products for these consumers. There needs to be a far more proactive approach to ensure that these consumers get a good deal and that when a market storm hits it does not destroy trust in pensions and the hopes of thousands of consumers for a comfortable retirement. The onus should be on Government to make it easy for people to take reasonable decisions, through increased use of default options.”

A major part of this is ensuring people understand their options by receiving advice or guidance. As paid-for, regulated financial advice is not an option for most people, it is imperative that Pension Wise becomes “the norm”, as the Pensions Minister agreed it should be.ⁱⁱⁱ

We are very concerned that at present only 14% of pots are taken through Pension Wise prior to being accessed – as this is only a per pot measure, the actual figure for individuals taking guidance before access is likely to be even lower.

However, as the user evaluation clearly shows, Pension Wise delivers a high quality and valuable service that benefits non-advised savers as they come to access their pension savings:

- 94 per cent of appointment users were very or fairly satisfied with their overall experience of Pension Wise (77 per cent of whom said very satisfied and 18 per cent fairly satisfied);
- 88 per cent of appointment users said Pension Wise helped improve their understanding of their pension options;
- 70 per cent of Pension Wise users correctly answered eight true/false statements relating to their pension options compared to 43 per cent of non-users; and
- 95 per cent of Pension Wise users said their appointment left them feeling very or fairly confident in their ability to avoid pension scams, compared to 79 per cent among non-users.^{iv}

Given its effectiveness, it seems eminently sensible that Pension Wise is a key part of the solution to helping improve savers’ outcomes, and we believe that the majority of consumers should be using the service. The ‘stronger nudge’ trials yielded very disappointing results, with the most successful outcome nudging only eight per cent more

savers into Pension Wise than the control group. This still leaves a majority of savers taking extremely complex decisions without any appropriate support.

The Financial Guidance and Claims Act gained Royal Assent on 10 May 2018, and more than three years later we are still awaiting the implementation of a solution that helps more people receive guidance from Pension Wise.

As the 'stronger nudge' barely scratches the surface, we believe an auto-appointment service should be piloted and evaluated as soon as possible. This would harness inertia in much the same way that auto-enrolment has, while allowing savers to opt out if they do not need guidance.

The Association of British Insurers has recently backed proposals to test this approach:

"Providers have reported that nudging to guidance is more effective when customers are considering their options, rather than when they have already made a decision. Making the process as easy as possible for customers, including automatically booking appointments for them, should also be explored."^v

We are disappointed that the DWP has resisted exploring this so far. Surely helping savers get better retirement outcomes is exactly what Government and regulators should be working towards?

With sections of the industry now coming out in support we are optimistic that the 'stronger nudge' can be built on and developed into a fully functioning auto-appointment system, and we urge the Government to pilot this system as soon as possible.

Consultation questions

Q1: Do you agree with our proposed approach to defining when the Stronger Nudge should be delivered? If not, what changes do you consider necessary?

We are doubtful that the trigger as described will have much impact on people using Pension Wise. This should be available for savers and promoted to them appropriately from age 50, the soonest time they are eligible for an appointment, and in line with developments around wake up packs. Waiting until someone has made a decision on what to do with their pension savings is too late, which will lead many people to decline the offer of an appointment. The trigger should be delivered every year until the pension is accessed.

Because of the difficulties the trigger will have in overcoming behavioural biases, we believe that only an auto-appointment system, that harnesses inertia, would deliver results

sufficient to make using Pension Wise “the norm”. Under this approach people would have an appointment automatically booked for them following their 50th birthday, with the option to defer or to opt out. The stronger nudge would then provide a backstop in case they need to receive guidance later on at the point of access (whether it be again or for the first time).

Q2: Do you agree with our proposed approach to appointment bookings? If not, what changes do you consider necessary?

We welcome that the DWP has included an offline channel through which appointments can be booked, and as far as the ‘stronger nudge’ goes it seems sensible. However, as we believe this should be part of an auto appointment system, there should be provision made for trustees and managers to set up appointments on their members’ behalf, probably working with a central coordination body. This should be piloted by the DWP and FCA as a matter of urgency.

Q3: Do you agree with our proposed approach to requiring an opt out in a separate interaction? If not, what changes do you consider necessary?

Q4: Do you agree with our proposed approach to prevent trustees and managers proceeding with the application until they are in receipt of confirmation that the individual has opted-out or received appropriate pensions guidance? If not, what changes do you consider necessary?

We agree with both these proposals. Trustees and managers should not proceed until confirmation of an opt-out has been received. While some schemes may argue this will harm their customer service levels and lead to false expectations that customers can access their savings quickly, if this is an industry standard then no individual scheme will be made uncompetitive by this process. We believe customer expectations will adjust to include the guidance/opt-out process as part of the time required to access their money.

As explained in the introduction, we believe there is a strong case for an auto-appointment system being established. This, including the opt-out process, could be managed by a central body, which would communicate opt-outs to trustees and managers, allowing them to release the pension.

Q5: Are the proposed exemptions sufficient? If not, what changes do you consider necessary?

We agree with an exemption from the opt-out process for people claiming a Serious Ill Health Lump Sum, but do not believe it is necessary to exempt people who have received regulated financial advice. We have heard anecdotally that people who also pay for financial advice often benefit from Pension Wise, for example improving their personal understanding of retirement income products. If such people wish to opt-out, there is nothing stopping them from doing so, and an exemption from the process seems unnecessary.

Q6: Is an exemption for small pots necessary? If so, how should a small pot be defined?

No. It is important that Pension Wise usage is increased among all savers, not just those with more money in their savings. In many cases, people may have one or two small pots in combination with a larger amount held elsewhere, and the prompt to take guidance when accessing their small pots could be the motivation they need.

Q8: Do you believe our proposed approach to record keeping is proportionate? If not, what changes do you consider necessary?

We are concerned that the proposed approach does not go far enough. This represents a unique opportunity to understand the of details who is receiving advice, how are they receiving it, and what the benefits are. The DWP needs to ensure that trustees and managers are providing sufficient information – this will be important in developing the future public policy direction of pensions information. This should include both demographic and financial information, such as equalities data, location, and

Q9: Do you agree with our proposed approach for coordinating the Stronger Nudge and Scams Guidance appointments? If not, what changes do you consider necessary?

This is difficult to answer as the scams guidance appointments are not yet live, so we do not know how consumers will respond. The approach should be kept under review as we learn how effective the new appointments are, and the Government should keep an open mind about adjusting the approach in future.

The opt-out process should be as consistent as possible across both the trust-based and contract-based regimes, and the DWP should consider whether giving trustees more freedom will have any negative impact on the opt-out rates. Hopefully the fiduciary duty should ensure that trustees handle this effectively, but there are likely to be cases where this does not work well, so the DWP must ensure that itself and the Pensions Regulator are able to train trustees, and monitor how this happens in practice.

Q10: Do you foresee any problems with the interaction between the Stronger Nudge and existing signposting provisions? If so, what changes do you consider necessary?

Existing signposting provisions are few and far between, so there is unlikely to be any conflict. Pension schemes are already required to take several measures to help their members, such as provide wake-up packs and issue risk warnings, many of which direct people to Pension Wise. However, these have had a negligible impact on Pension Wise take-up rates, so there is little that the new approach can do to worsen this.

Question 16: Do you anticipate any wider non-monetised impacts from the Stronger Nudge?

From a consumer perspective, there are non-monetised benefits of accessing Pension Wise. The stronger nudge will help some savers utilise Pension Wise, which will have benefits to savers that will last a lifetime. Helping people understand their options and make the right decisions will put people in a better position to meet their short-term financial need and to increase their long-term income. Pension Wise also helps educate people about pensions more generally, which can be helpful for other reasons, for example managing household budgets and improving gender equality among retired couples – see Age UK’s report *For Love and Money* for further detail.^{vi} It is not possible to easily quantify these things – in essence Pension Wise is part of the wider landscape of financial support and education, which we believe is widely beneficial to society.

However, with regards to stronger nudge itself, as already noted the effect on take-up is fairly small. An auto-appointment system would enable far more people to access these benefits.

Question 17

Q17: Do you believe there are reasons to include a statutory review provision in the proposed regulations?

Yes, a statutory review would be a sensible measure to include. Ultimately, it is industry and MAPS/Money Helper that will be responsible for administering this and ensuring that take-up rates improve – as much of this is outside the DWP’s control, a statutory review would surely be helpful for the Government to ensure that its agencies and services are operating effectively and as intended.

Q18: Do you consider the proposed regulations achieve the policy intent?

No, the proposed regulations fall well short of meeting the policy intent. The Minister has confirmed that using Pension Wise should be “the norm”^{vii}, while the original intention was (as noted in the introduction) that everyone accessing their pension “will get” guidance.

The stronger nudge proposals only increased the take up rate by 8%, making it a small step towards fulfilling the policy intention rather than the solution. Alone, it is woefully insufficient and should only be considered a backstop for people who have opted out of their automatically arranged appointment.

It is disappointing that the Government will not consider more appropriate measures to get people to access the help they require, and unclear why this is the case. Pension Wise has proven to be a successful service and the DWP should be proud of the role it has played in creating it. Age UK does not understand why there is such reticence to take a more significant step like creating an auto appointment service, when this would be likely to achieve the policy objective and help millions of individuals improve their personal finances in retirement.

Q19: Do you foresee any unintended consequences in our proposed approach?

Those who do not access Pension Wise but could benefit from it may well take inappropriate pension decisions, potentially being financially worse off throughout their later life. This is likely to be bad for the individuals, the economy, and for the Exchequer which may ultimately pay more in benefits if, for example, people run out of pension income. As stated, we believe an auto-appointment approach would significantly boost take-up and should be piloted as soon as possible.

Q20: Do you have any comments on the impact of our proposals on protected groups and/or views on how any negative effects may be mitigated?

We know from the Pension Wise evaluation that 61 per cent of appointments are made by men. Pension Wise take up should be carefully evaluated on gender grounds, as well as by the other protected characteristics and demographic factors, to ensure that all groups are accessing the service. There may be improvements to communications that would encourage underrepresented groups to use the service, which would be worth the DWP exploring in more detail.

-
- i <https://www.gov.uk/government/news/millions-guaranteed-the-right-to-free-and-impartial-guidance-on-their-new-pensions-choices>
- ii Age UK (2019) Fixing the freedoms - <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>
- iii [https://hansard.parliament.uk/commons/2020-11-16/debates/298AA028-D49E-4F07-A001-C483ADF38659/PensionSchemesBill\(Lords\)#contribution-2D61D1AA-0B7C-42ED-92E7-8368A055311C](https://hansard.parliament.uk/commons/2020-11-16/debates/298AA028-D49E-4F07-A001-C483ADF38659/PensionSchemesBill(Lords)#contribution-2D61D1AA-0B7C-42ED-92E7-8368A055311C)
- iv <https://maps.org.uk/2020/10/05/pension-wise-service-evaluation-2019-2020/>
- v <https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf>
- vi https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/rb_aug18_women_retirement_expenditure_and_pensions.pdf
- vii [https://hansard.parliament.uk/commons/2020-11-16/debates/298AA028-D49E-4F07-A001-C483ADF38659/PensionSchemesBill\(Lords\)#contribution-2D61D1AA-0B7C-42ED-92E7-8368A055311C](https://hansard.parliament.uk/commons/2020-11-16/debates/298AA028-D49E-4F07-A001-C483ADF38659/PensionSchemesBill(Lords)#contribution-2D61D1AA-0B7C-42ED-92E7-8368A055311C)