Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear DWP,

Financial Services Consumer Panel response to DWP consultation on helping savers understand their pension choices

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of financial services policy and regulation in the UK.

Our focus is predominantly on the work of the FCA, however, we also look at the impact on consumers of other bodies' activities and policy where relevant to the FCA's remit.

The Panel's vision for the market is as follows:

- Consumers can easily understand their pensions: where they are, how they are invested, their current value, the potential retirement income they will provide and where to get help.
- Those considering accessing their pensions for the first time receive high-quality impartial guidance on the options available to them
- Those withdrawing lump sums make fully informed decisions, including understanding any tax implications and the risks of holding cash
- Consumers understand the options available to them, and are able to select an option based on their immediate and potential long-term needs
- Firms act in consumers' best interests when managing pensions and pension assets and when providing advice
- Delivery of significant improvements in measurable outcomes including: sustainable withdrawal rates and evidence that consumers are selecting products that are appropriate for their needs at any particular point in time
- Pension products offer value for money

The Panel believes that the following member-focussed principles should underpin policy-making concerning pensions:

- Decisions should be based on members' best interests or outcomes, not on the impact on firms of having to manage individual 'pots'
- Assumptions about consumers' behaviours should be evidence-based (not, for example, based on the attitudes or beliefs of pension providers or firms)
- Taxation policies that hinder good outcomes for members need to be addressed (e.g. Uncrystallised Funds Pension Lump Sum (UFPLS) v drawdown)
- Due to the complexity of pensions and low overall engagement, there should be an assumption that high quality guidance or advice is an essential component of good outcomes

Please find the Panel's responses to the questions posed in Annex 1.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel

Annex A – Response to consultation questions

Interim findings

Q1. Should it be up to trustees to determine the other suitable suites of products?

Yes. The Panel believes it should be up to trustees to determine the other suitable suite of products as this is consistent with trustees' fiduciary duty. However, when considered in the context of the DWP's current consultation on the capability of trustees, it is unlikely that all trustees will be able to do this in the short-to-medium-term without support.

The Panel therefore agrees that a framework, alongside some guiding principles, would improve the offering to members. Both prior to and post legislative change, the precise nature of 'encouragement' to adopt this approach will be of vital importance because of the risk of harm to members where there is breach of the legal and fiduciary duties and/or when there is widespread mismanagement due to incompetence. Members who are in schemes run by trustees who are not up to the task should not be disadvantaged.

Q2. What can government do to help a CDC-in-decumulation market emerge?

The Panel would encourage government to seek evidence from other markets where CDCs operate.

Q3. We would welcome views to understand what are the minimum requirements that trustees should put in place for members facing decumulation?

The Panel believes this question is a good example of the concern raised in our covering letter that the focus of pensions must be the individual. not the scheme member or the 'pot'.

A scheme member may have several different types of pensions operating under different schemes and/or regulations. Engagement and trust in pensions is unlikely to be improved if members facing decumulation have varying requirements placed on them by different types of pensions. Hence there should be consistency across the regulatory regimes.

Due to low overall engagement with pensions, members should be presented with choices that are easily understandable, that relate to their short and medium-term personal circumstances, that match their risk preferences, that are flexible, and that are easily adaptable to the longer-term.

Q4. What other factors should a trustee/scheme take into account when developing their decumulation offer?

The Panel has a broader concern about the absence of a holistic approach towards later life consumers. Scheme members who also hold other substantial savings (eg housing equity, investments) should be able to make fully informed decisions, with adequate guidance or advice, on the entirety of their assets and liabilities.

Q5. 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?

The Panel agrees that these are the right questions to capture the majority of ways an individual will want to use their pension wealth.

Q6. Are there any other questions we should include in the framework?

The Panel believes that members might also welcome a prompt about an appropriate future point in time to review this choice, particularly if they view it as a one-off decision. A prompt to consider relevant taxation issues might be helpful.

While the questions are very simple, the choices available to members are underpinned by current legislation on pensions, which is highly complex, potentially very costly, and some aspects of which may less advantageous than others (e.g., UFPLS v drawdown).

Q7. 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 listed in this consultation are designed to guide members to a choice that suits their needs. Members who are presented with a set of options that they 'could' follow are not being provided with advice. However, it is clear from prior research that members/consumers want personal recommendations, and, indeed, many view default options as recommendations.

The Panel therefore welcomes this question if its intent is to provide further input to the ongoing Advice and Guidance Boundary Review.

Q8. 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?

The Panel believes that members receiving a regular income should be provided with the rate they are receiving this at, along with information that enables them to evaluate this (e.g. RAG ratings, explanations of past trends or future developments, and the ability to easily make market comparisons).

Members who have selected to receive flexible access should be provided with RAG-rated information on performance and service quality as a minimum.

Q9. 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?

N/A

Q10. Do you use the same charge structure as you do in the accumulation stage?

N/A

Q11. We would welcome views to understand what are the practical considerations of partnering arrangements?

N/A

Q12. Should government set out a minimum standard partnering agreement?

N/A

Q13. Should all schemes be allowed to establish partnership arrangements or only schemes of a certain size? If only a certain size, what should that be?

N/A

Q14. Is there a role for a centralized scheme to deliver decumulation options, where trustees are unwilling to offer these directly?

N/A

Q15. We would welcome views on if there is an alternative to our approach for legislation that would achieve the same results?

The Panel agree that neither legislation nor market-based solutions are perfect solutions, with both carrying the risk of unintended consequences.

However, legislation, particularly when focused on outcomes rather than on activities or inputs, is more likely to achieve better outcomes in both the short-term and long-term for members.

Q16. We want to work with industry during the implementation of these proposals; what timeline should we work with to implement these changes?

The Panel believes that this question is best addressed through a comprehensive understanding of the barriers to implementing these proposals as soon as possible so that members can obtain better outcomes from their pension savings. This would also bring forward any benefits to the wider economy, e.g. in reduced welfare payments or increased later life expenditure.

The Panel is of the view that industry will tend to seek longer timeframes – this should be robustly challenged, and ideally evidenced through a comprehensive cost-benefit analysis, to ensure members, and wider society, are not exposed to continued harm associated within the pensions market.

Q17. When we introduce legislation should this only apply to Master Trusts in the first instance?

N/A

Q18. 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?

N/A

Q19. Are you able to quantify any of the one-off or on-going costs at this stage?

N/A

Q20. Are you able to provide a breakeven point in pot size for providing certain decumulation products or services? Would this be different for decumulation only CDC's?

N/A

Q21. What benefits do you expect there to be from the proposals (members/schemes/wider)? Do you think they are quantifiable?

Policy decisions should be based on information as it relates to individuals. However, evidence[1] suggests that some pots are being withdrawn at unsustainable rates, although the impact on consumers remains unknown at present. These proposals have the potential to improve outcomes for individuals, both directly and indirectly (through better choice architecture). The continued shift from DB to DC pensions coupled with a depressed economic outlook suggests that any changes that will improve member outcomes will have commensurate benefits for the wider economy e.g., in reduced welfare payments or in increased expenditure by later life consumers.

Q22. Do you think the benefits from the proposed changes outweigh the costs?

The Panel would agree that the benefits from the proposed changes should outweigh the cost, particularly when considered within the broader context of outcomes for the wider economy in terms of reduced welfare payments and increased later life expenditure.

[1] https://www.fca.org.uk/data/retirement-income-market-data-2020-21