The Pensions Regulator

FINANCIAL CONDUCT AUTHORITY

Call for Input: Pensions consumer journey

May 2021

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1 Call for Input: Pensions consumer journey

1.1 This is a joint Call for Input by the FCA and TPR. We are inviting views on what else we can do to help engage consumers so that they can make informed decisions that lead to better pension saving outcomes.

Who this applies to

1.2 This Call for Input will be of interest to:

- Pension providers
- Pension trustees
- Trade bodies
- Consumers and consumer groups
- Academics
- Employers

What you need to do

1.3 We welcome discussion and feedback. Please share your views, including responses to our questions by **30 July 2021**. You do not have to answer every question.

1.4 Send responses to: PensionsConsumerJourneyCFI@fca.org.uk and PensionsConsumerJourneyCFI@tpr.gov.uk.

2 Introduction

2.1 The pensions and retirement income markets have changed significantly since 2012. Automatic enrolment (AE) fundamentally changed the way many people save into their pension and the Pension Freedoms now give consumers more choice when they access their pension savings. There has also been a shift away from defined benefit (DB) schemes towards saving into defined contribution (DC) schemes, transferring the risk and much of the responsibility for retirement outcomes onto the consumer.

2.2 However, AE statistics show that consumers struggle to engage with their pensions. Most new pension savers under AE:

- make the default contribution of 8%, including the employer contribution
- rely on others to decide on where to invest their money, with 99% of all savers in open DC membership schemes staying within the default fund
- rely on their employer to make active decisions about which scheme they save into

2.3 Consumers may also end up making small contributions over a long period of time and have several different pension pots due to changing jobs.

2.4 Across the consumer journey we believe this 'struggle to engage' can mean consumers:

- fail to make decisions that optimise their pension saving
- remain in poor performing products, often originally chosen by their employer
- are susceptible to scams

2.5 We have already worked to make sure consumers are supported and we continue to do this through:

- ensuring greater value for money and greater comparability between pensions by working to make it easier for Independent Governance Committees to compare the value for money of pension products and services
- wider work to make the consumer investment market function well and to protect the most vulnerable consumers
- work to improve understanding of the choices at the point of accessing pension savings, such as changes to 'wake-up' packs, the introduction of investment pathways for non-advised drawdown consumers and signposting and nudging to take Pension Wise guidance.

2.6 The Government is also looking at the information savers receive about their pension savings and when they receive it. This includes the introduction of simpler annual benefit statements and potentially a 'statement season', as well as the introduction of pension dashboards.

2.7 Alongside this, the Small Pension Pots Working Group has published a report with recommendations to deal with the increase in the number of small, deferred pension pots in the AE market.

2.8 The Money and Pension Service's (MaPS) UK Strategy for Financial Wellbeing sets out an ambition to improve financial wellbeing and understanding of pensions. The FCA and TPR will continue to support MaPS to help that ambition become reality.

2.9 In line with our respective remits, our actions have focused on the firms and trustees we regulate, because we do not regulate consumer behaviour. However, in a world where pension savers' decision-making, or lack of it, has such a key role in outcomes, we are publishing this consumer behaviour-focused Call for Input (CFI) to explore what else we can do to help support people in their choices.

2.10 Consumer behaviour can have a significant impact on the pension outcome. We want to understand how we can help at key points in the consumer journey to improve pension outcomes. This includes identifying the best points at which to offer consumers support, knowing who is best placed to provide support and how this can be done. This is a topic that we, our partners and the industry have grappled with for many years. Through this CFI we hope to refresh our understanding, invite challenge to our thinking and gather views and data to help inform policy making in the months and years ahead. We will use the feedback received to consider and target future regulatory interventions in areas that benefit consumers the most.

2.11 This CFI complements wider work by the FCA to help make the consumer investment market work well for investors and to protect the most vulnerable consumers.

2.12 It also follows on from the launch of TPR's Corporate Strategy which puts savers at the heart of all that TPR does and looks to rebalance its focus evenly across both DB and DC pensions.

3 Stages of the pensions consumer journey

3.1 The pensions consumer journey is made up of the decisions consumers make and the touchpoints they have with their pension savings, from starting to save in a pension to retirement. This includes decisions around:

- when to start saving
- how much to save
- which savings vehicle to use
- how and when to seek pension advice
- how and when to access their savings

3.2 In a workplace pension scheme, some of these decisions are made on behalf of consumers by the employer or trustees, for example, when an employer chooses a pension provider and which savings vehicle and investment strategy employees' pensions will be invested in. Consumers do have to make some decisions for themselves – eg to change to a different fund – but in trust-based pensions it is the trustees who make many of these decisions on behalf of savers, including moving a whole scheme.

3.3 Some consumer decisions are 'conscious', where a consumer makes an active decision about their pension. Some are 'unconscious' decisions, like being automatically enrolled and remaining in the default fund.

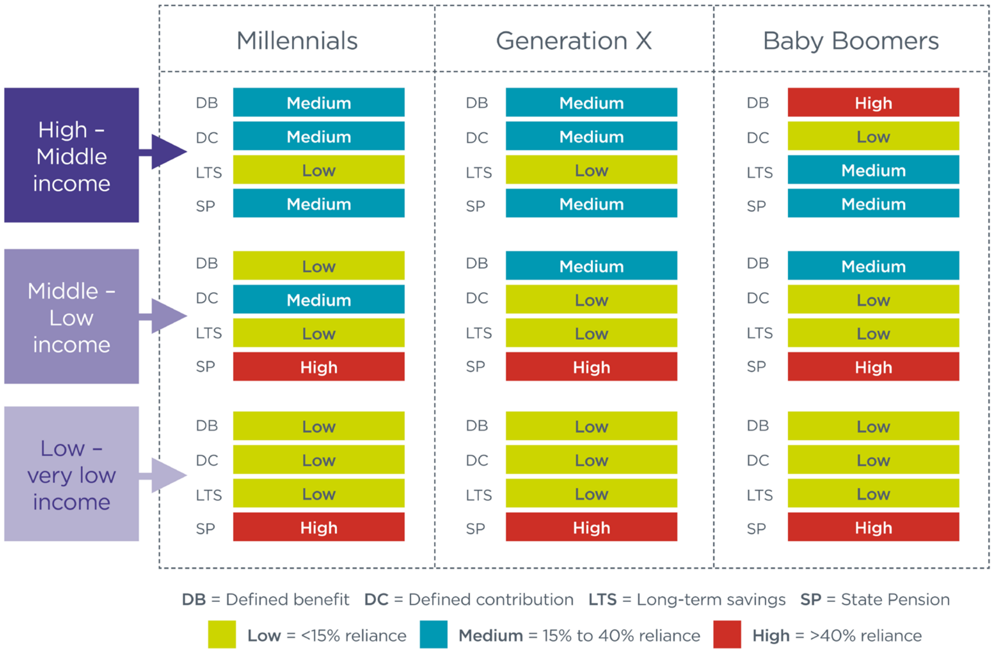
3.4 We see the main stages of the pensions consumer journey as:

- starting up a pension
- accumulating
- approaching retirement
- accessing a pension
- decumulating

3.5 This CFI focuses on the first 2 stages of the journey because the decisions made here fundamentally affect the choices available to savers at later stages of the journey. Further, extensive work has been done to support consumer decision later in the journey as set out below.

3.6 The pensions consumer journey does not always follow a straight path and some decision points will reoccur during a saver's lifetime. Pension savers have different circumstances and differing work and life experience, which determine the kind of pensions journey they have. Their pension provision and relative reliance on different sources of retirement income is also likely to be different, influenced by age and income, as outlined in TPR's Corporate Strategy:

Figure 1.1 A simplified estimation of the relative reliance that different generations and income groups are likely to place on DB, DC, the state pension, and other long-term savings (LTS). This shows that younger and lower income savers increasingly rely on DC pensions for their retirement income



3.7 The FCA's Intergenerational Differences work explored how consumers' expectations of financial service change over time. "Baby Boomers", "Generation X" and "Millennials" often lead significantly different lives, have different expectations and different resources. As a result, their pension provision is also likely to differ, potentially substantially as outlined in TPR's Corporate Strategy. The work identified areas where financial services can act to better meet intergenerational financial circumstances and needs.

3.8 Savers are likely to have multiple jobs, leading to the creation of multiple pension pots in their lifetimes. This may mean that savers are faced with lots of different communications from providers, adding a further level of complexity. Some of the pots will be small and consumers may lose track of their pots, with pension providers not necessarily equipped to identify all the pots held by individual consumers.

3.9 People have more choice about how they access their pension savings due to increased longevity and flexible working patterns and because of this and multiple pots the later stages of the pensions journey may start to overlap.

Current touchpoints and communications

3.10 Firms and schemes are required to provide several important communications at key points in the pensions journey, with the number of disclosures that must be provided increasing as consumers approach retirement.

Starting up	Accumulating	Approaching retirement	Accessing pension	Decumulating
• Auto-enrolment and re-enrolment communications (workplace pensions only) • Accumulation: Key Features Document and Key Features Illustrations (personal pensions only)	• Annual Benefit Statements in accumulation (all pensions) • Annual reports on VFM from IGCs (workplace personal pensions) • Annual chair statements (DC occupational pension schemes)	• Retirement risk warnings when a member contacts asking about flexible benefits (occupational pensions) • Wake up packs	• Retirement risk warnings • Safeguarded flexible benefits risk warning (all DC pensions with income guarantees) • At Retirement Trustee Communications (occupational pensions) • Drawdown &UFPLS: Key Features Illustrations (Key Features Document) (personal pensions only) • Annuity Information Prompt (all annuity providers) • For non-advised drawdown: investment pathways and cash warnings (personal pensions only)	• Annual Statement (personal pensions only) • Annual Benefit Statements in decumulation (all pensions) • Ongoing Cash warnings (personal pensions only) • Ongoing wake-up pack on uncrystallised funds (personal pensions)

Q1: Is this understanding of the consumer journey an appropriate foundation for regulatory policy making? If not, what other elements of the journey should we be considering and how might the changing nature of retirement and working patterns in the future shape the support required?

4 Drivers of harm in the consumer journey

Overarching harm

4.1 We think the key risks to consumers are that they:

- struggle to make decisions that optimise their pension saving
- remain in badly-performing products
- are susceptible to scams

Consumers who struggle to make decisions that optimise their pension saving

4.2 Automatic enrolment has effectively harnessed the power of defaults to create a much larger and more diverse group of pension savers. Trust based DC memberships have increased from around 2.4 million memberships in 2010 to 21.8 million memberships in 2021. While this approach has brought in many more pension savers, the lack of active decision making means many savers do not engage with their pensions and they may not know how to engage when it is beneficial for them to do so. Our analysis of The Financial Lives Survey 2020 shows:

- 2 in 5 (38%) of those currently contributing to a DC pension do not know how much they or their employer are paying into their pensions
- half (53%) currently contributing to a DC pension have not reviewed their pot value in the past 12 months
- one third (31%) of adults with a DC pension in accumulation don't know who their pension provider is

4.3 Because DC savers carry the financial risk for their decisions, one of our goals as regulators is to give them access to the support they need to engage and make decisions. We believe that engaged and supported consumers, with access to suitable guidance and regulated financial advice, are more likely to understand how the decisions they make now will impact their retirement. This may help them overcome behavioural biases and achieve better outcomes than reliance on inertia alone may deliver.

Consumers remaining in poorly performing products

4.4 45% of people say that they do not give their pension much thought until they are 2 years from retirement. Until this point, many savers have never made an active choice about their pensions. Those saving into a workplace pension were automatically enrolled into a scheme that their employer picked for them. This may lead to consumers staying in products that are not performing as they expect or paying more for their products than other similar products available. This may happen in several ways:

- consumers selecting a non-workplace scheme which does not provide value for money and remaining in it

- consumers remaining in an unsuitable workplace pension scheme as a deferred pension when they change employer
- the employer selecting an unsuitable scheme for their employees, who remain in the scheme

Consumers vulnerability to scams or transfer decisions not in their best interests

4.5 Several factors may make some consumers more susceptible to scams or poor transfer decisions than others. Promises of high returns can be enticing. The temptation of "too good to be true" promotions may be exacerbated if late engagement with pensions means that consumers miss opportunities to take remedial action early in the journey, or if their savings have been neglected in poor value for money products that will not enable them to meet their retirement objectives. When they do engage, many do not access either regulated financial advice or appropriate guidance, and if they do some choose to override adviser's concerns. Many will have limited familiarity with complex financial products. Overconfidence, a lack of knowledge of the warning signs of a scam, and / or having some characteristics of vulnerability also contribute to making some consumers more susceptible to scams. When consumers do not achieve their expected retirement objectives this undermines trust with the industry and may also deter others from engaging.

Q2: Have we identified the correct overarching harms in the consumer journey? If not, what others are there?

Factors that lead to these harms

4.6 There are several drivers – including behavioural biases, structural issues and barriers to engagement – that contribute to the identified harms.

Behavioural biases

4.7 The lack of engagement with pensions could be due to behavioural biases including:

- Short-termism – people prioritising their current wants and needs over long-term planning for retirement and not understanding what a suitable retirement goal may be. Overcoming short-termism is one of the reasons why automatic enrolment was conceived and introduced.
- Risk aversion – when people realise their pension is subject to investment risk and can fluctuate in value, this runs counter to their expectation of guaranteed returns and they begin to see their pension as more of a gamble.
- A lack of confidence in financial matters – the confidence to make financial decisions is normally gained through the subjective feeling of being an 'adult'. This is created by certain life events or milestones, for example buying a house. These now often happen later in life than in previous generations, which could delay the age at which Millennial and Generation Z consumers begin to engage with saving in a pension because they are focused on achieving these milestones first.
- Overconfidence in financial matters – overconfidence can lead to sub optimal financial decisions and a failure to engage with guidance or regulated advice as consumers overestimate their financial ability.

4.8 All these factors could lead to a lack of engagement with pensions.

> **Q3: Have we identified the main behavioural biases which influence saver engagement with pensions? If not, what others are there?**

Structural issues

4.9 Structural issues within society can have an effect on good pensions outcomes. These include:

- types of employment – self-employed versus employed and the movement between the different types of employment
- gender – the gender pay gap is reflected within pensions
- ethnicity – with pensions participation varied across ethnicity
- disability – which can lead to poorer pensions outcomes
- other protected characteristics that cause pensions inequality

4.10 These factors can lead to lower incomes in retirements, a lack of engagement with pensions or the risk of poor choices.

Employment

4.11 Different types of employment affect pension saving behaviour and self-employment leads to a different pension journey for consumers. Self-employment is increasing in the UK, with 4.3 million self-employed people in the UK in 2020, up from 3.2 million in 2016. How people are employed has also changed, with an increase in multiple short-term employments, zero hours contracts and the rise of the 'gig economy'. 3% of people in employment were on zero hours contracts in the 3 months to December 2020, up from 0.8 percent in the same period in 2012. However, the number of self-employed workers contributing to a private pension has been steadily declining since the 1990s. Non-workplace pensions play an important role in ensuring that more people have access to a pension product, regardless of their employment type.

4.12 People are also changing employers more frequently and are increasingly moving between employment types over the course of their working life. Many who are currently self-employed, will previously have been enrolled in, or offered, a workplace scheme at some point. This creates the challenges of multiple and often small pension pots, and ensuring that self-employed people continue to engage and contribute to a pension.

4.13 Sudden pressures on income, such as those presented by Covid-19, may also lead savers to want to access their pensions immediately. This may result in a large tax bill and risks a poorer long-term financial outcome.

4.14 The Covid-19 crisis may have a long-term impact on pension savings and engagement with pensions. Some people will have experienced income shocks which have negatively affected their ability to save, while many will have seen increased volatility in the value of their pensions at the beginning of the pandemic. This could lead to a change in people's attitudes towards their pensions.

Gender

4.15 There is a large gender income gap in the UK which is reflected in a gender gap in pensions. The FCA's analysis of Wave 6 of the Wealth and Assets survey data shows the median pension wealth for men peaks at £260,000, while the peak for women is £90,000.

4.16 Academic research has attributed this gap to women being currently more likely to:

- take career breaks
- earn less over the course of their working lives
- live longer in retirement.

Ethnicity

4.17 Although AE has created a more diverse pensions landscape and driven participation in pensions across all ethnic groups, gaps persist.

4.18 For example, between 2016-2019:

- white employees had an average participation rate of 81%
- employees with a Pakistani or Bangladeshi background had an average participation rate of 61%

4.19 The People's Pension 2020 report, Measuring the ethnicity gap pensions gap, examines the UK's overall ethnicity pension gap. Pensioners who belong to an ethnic minority group had an annual pension income that was 24.4%, or £3,350 lower compared with the pension of someone of a white ethnicity in 2017-18. When crosscut with gender, on average, a female pensioner from an ethnic minority group had an annual pension income that was 51.4% lower than that of a male pensioner of a white ethnicity.

Disability

4.20 Disability also materially affects incomes and living circumstances of households in the UK – which has a knock-on effect on pensions provision and savings. According to the Pension Policy Institute disabled people are:

- less likely to be in work
- have lower earnings when in work
- less likely to be saving into a private pension
- less likely to work after the state pensions age

4.21 Disabled people may also need later life care earlier than non-disabled people.

Other protected characteristics

4.22 We have a duty to fully consider how our policies or decisions affect people who are protected under the Equality Act 2010. Alongside gender, ethnicity and disability there may be other examples of protected characteristics that lead to inequalities in pensions and on which we welcome further evidence.

> **Q4:** **Have we identified the right structural issues? How can the pension consumer journey be improved to address poor outcomes caused by structural issues?**

Barriers to engagement

4.23 Alongside behavioural biases and structural issues, there are further barriers to driving engagement with pensions and facilitating choice. We focus on 3 key barriers.

Low understanding of pensions

4.24 Pensions knowledge, and financial capability, are low. Less than half (45%) of people aged 18–64 said they knew enough about pensions to make decisions for retirement. Savers also struggle to accurately assess the cost and risk of different investment options. Attractive framing of investments can mean consumers fail to assess the costs accurately, with FCA research showing that consumers start to doubt the accuracy of financial promotions when the promised annual return is about 30% or more, a topic which is explored in the FCA's call for input on the consumer investment market.

Difficulty in moving products or changing contributions easily

4.25 AE savers do not have a choice about which scheme they save into. That choice is made by their employer, who selects an occupational pension scheme for their employees. With a private pension, the choice is the consumer's alone. When moving employment, or changing employment type, savers in occupational schemes will, by default, be in a new pension scheme, often even if the new employer is within the same scheme as the previous one. This has led to a rise in many small pots which is an issue a government working group has outlined proposals to address.

4.26 AE gives savers flexibility to reduce or increase their contributions, if the pension scheme rules or governing contractual arrangements enable this. However, the number of times this can happen in a year can be restricted for administrative reasons. And for those with a private pension, there is a perceived 'hassle factor' in changing direct debits to change the level of contributions.

Getting a holistic view of pension saving

4.27 AE was designed to harness inertia to bring savers into the pensions system. However, given the purpose of pension savings and the tax relief received, they cannot be accessed before age 55, without incurring a large tax bill, except in certain circumstances. Given the long-term nature of pension savings – often in a system that straddles paper and digital mediums – understanding and engaging with a consolidated picture of individual pension savings, can be a challenge for consumers. Pensions Dashboards will be important in addressing this issue, providing a single place for consumers to view their pensions.

Q5: **Are there other barriers to engagement that we have not identified? Are there solutions to the barriers to engagement that regulators, industry or others should consider?**

5 What else can be done to enhance engagement and support consumer decision making?

5.1 In this section we ask what more we, as regulators, can do to facilitate improvements to the consumer pensions journey and help consumers to engage appropriately. This could be through harnessing behavioural biases and values, embracing innovation, or engaging employers to provide more support to employees or the regulatory environment.

Harnessing behavioural insights and values

5.2 Behavioural biases are used to drive engagement or improve outcomes in pensions. One example from the USA is Save More Tomorrow (SMarT) which uses the present bias to increase contributions. When an employee signs up to the programme, their pension contributions are tied to their salary. When they receive a salary increase their pension contributions also increase. This means that the employee does not experience a decrease in take-home earnings even as the proportion of salary paid into pension contributions increases.

5.3 The FCA's Intergenerational Differences work showed that different generations will have different financial needs and expectations and considered how financial services can act to meet these needs. Some evidence shows that consumers are interested in making investment and purchasing decisions consistent with their values around environmental, social and governance (ESG) issues. This interest in ESG issues is linked to increased engagement with pensions as consumers, particularly Millennials, become more concerned about the nature of assets that their retirement saving are invested in. Better alignment with the specific needs and values of savers from different generations could lead to increased consumer engagement with pensions. Pension providers collect metrics for example through monitoring consumer queries or through frequently searched terms on their websites and also undertake consumer research. By understanding who is engaging, what they are engaging about and how they are doing so, pension providers can take action to improve pension outcomes.

> **Q6: What data do you use to monitor and improve engagement by different cohorts of consumers? How can we encourage the pensions industry to use behavioural insights and values to engage consumers?**

Embracing technology and innovation

5.4 Technology is driving engagement across many industries, including financial markets. Within the banking sector, we have seen app-based, smart phone-only challenger banks disrupt the market and the emergence of open banking.

5.5 Open finance, building on open banking could help facilitate further transformative innovations in the pensions industry and bring some of the ideas developed in the TechSprint to fruition.

5.6 The Pensions Dashboards initiative harnesses technology in a way which could increase engagement with pensions. Through Dashboards, consumers will be able to access information about all of their pension savings in a single place, at a time of their choosing. It could help savers reconnect with lost pots and consider retirement needs and options with support, where desired, from regulated advice or independent guidance. Other innovations to drive engagement which straddle both the pensions and long-term savings landscape include the ongoing Nest Insight sidecar savings project.

Q7: **What lessons from other industries could the pensions market use to drive the use of technology as an engagement tool and what would stakeholders find useful for regulators to do to facilitate innovation, for example creating a panel or additional TechSprints?**

Engaging employers and firms

5.7 Employers may have some insight into the financial needs and capabilities of their staff and can gain further insights about their employees' approach to pension saving via surveys, and certain employee data available to them. This can put them in a good position to encourage employees to engage with their pension, for example, when they reach life 'milestones'. Employees also look to their employers for guidance: more than half are interested in receiving support from their employers about financial issues. However, employers may not feel confident to provide this support, perhaps because of their own lack of knowledge or due to legislative boundaries that prevent them from giving advice, or arranging financial transactions (beyond specific exemptions for enrolment in a workplace pension).

5.8 Like employers, financial services firms may also be in a position to encourage savers to engage with their pensions and provide guidance on how they can achieve their retirement goals. However, as noted in the FCA's Consumer Investments Call for Input (September 2020), growth in the provision of guidance by firms is slow. We are told this is often because firms are worried about any costs and liabilities if, in practice, their approach to guidance does more than give guidance and amounts to providing a personal recommendation.

5.9 In workplace schemes, employers select the pension scheme into which their employees save. That selection will impact the choices savers can make about their pensions, including fund types, and the support employers provide savers across the journey. We are interested in hearing views on whether employers are supported in this decision sufficiently. This is alongside the joint work we are doing to establish a consistent framework for value for money assessments across DC pensions and the protections already in place which include the charge cap and master trust authorisation process which help maximise pensions savings.

Q8: **What guidance and support do employers need when picking a workplace pension for their employees and is more required?**

Q9: What help do employers and firms need to be able to give appropriate support to members and how can we encourage employers to share appropriate Money and Pension Service guidance?

The right regulatory environment

5.10 Savers can be in either a contract or trust-based pension, which are regulated by the FCA and TPR respectively. These come with different regulatory requirements and sometimes present different options to the saver. For example, in trust-based schemes, trustees can take action to move the whole trust to a better product, while insurer-based (contract-based) pensions require an individual to take action, which may increase the risk of inactive members remaining in unsuitable products. However, the saver is unlikely to know, or care which regulatory remit they fall under. Regardless of the regulatory remit, we want consumers to achieve similar outcomes from their savings, even if sometimes that is delivered through different interventions.

Q10: Are there areas of regulatory overlap between TPR and FCA causing problems for the consumer journey? If so, what would mitigate these?

6 Next steps

6.1 Regulators do not exist just to enforce rules or take action when things go wrong. Regulators can also help prevent things going wrong by facilitating choice, ensuring that firms provide better value to consumers and making sure that people and businesses are empowered to make well-informed decisions.

6.2 That's why improving consumer understanding and decision-making are key pillars of the joint FCA-TPR regulatory strategy. We want savers to make the best decisions about their retirement savings, in a system that works efficiently.

6.3 Understanding and identifying the factors that influence the pensions consumer journey and how we as regulators, and others across the sector, can drive improvements is complex.

6.4 Your feedback, answers and supporting data to the questions posed in this CFI will help us to determine whether we have identified the right areas to explore further and will inform regulatory interventions and actions in the years to come.

Annex 1
List of questions

Q1: **Is this understanding of the consumer journey an appropriate foundation for regulatory policy making? If not, what other elements of the journey should we be considering and how might the changing nature of retirement and working patterns in the future shape the support required?**

Q2: **Have we identified the correct overarching harms in the consumer journey? If not, what others are there?**

Q3: **Have we identified the main behavioural biases which influence saver engagement with pensions? If not, what others are there?**

Q4: **Have we identified the right structural issues impacting pensions and do others also have a material impact? How can the pension consumer journey be improved to address poor outcomes caused by structural issues?**

Q5: **Are there other barriers to engagement that we have not identified? Are there solutions to the barriers to engagement that regulators, industry or others should consider?**

Q6: **What data do you use to monitor and improve engagement by different cohorts of consumers? How can we encourage the pensions industry to use behavioural insights and biases to engage consumers?**

Q7: **What learnings from other industries could the pensions market use to drive the use of technology as an engagement tool and what would stakeholders find useful for regulators to do to facilitate innovation, for example creating a panel or additional TechSprints?**

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