Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346

Email: enquiries@fs-cp.org.uk

22 July 2022

By email: workpencom@parliament.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to DWP Call for Evidence 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. The emphasis of our work is on activities that are regulated by the FCA, however we also look at the impact on consumers of activities that are not directly within but are still relevant to the FCA's remit.

We are therefore responding to this consultation on the basis that our evidence is relevant to the DWP's efforts to help people saving into occupational pension schemes, and to get the most out of their pension saving.

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

- A joined-up communications strategy on pension saving, so that government, regulators, and industry speak in a coordinated way on pension issues;
- Guidance being a normal part of the consumer experience, with appropriate opt-outs available, and with personalised information used to activate consumers to seek guidance at appropriate points in their lives and to identify trigger points;
- Consumers understanding of the options available to them, and being able to select an option based on their immediate and potential long-term needs;
- Consumers who are considering accessing their pensions for the first time receive high-quality, impartial guidance on the options available to them, including any tax implications and the risks of holding cash;
- Clarity on complaint processes and routes to redress and compensation - and where there are several routes to redress, an understanding of the most appropriate route to use - should things go wrong;
- Regulators setting clear measurable outcomes when considering appropriate interventions and encouraging appropriate use of behavioural insights to improve the effectiveness of policy interventions.

The Panel welcomes the opportunity to respond to DWP's call for evidence, as questions 1-2 and 7-10 are directed at organisations running pension schemes, these are not applicable to the Panel. Our responses to the other questions posed in the call for evidence are included at Annex A below. As additional context, we also include at Annex B the Panel's response to the UK Parliament's Call for Evidence on Protecting Pension Savers – five years on from the pension's freedoms: saving for later life.

Yours sincerely,

Helen Charlton

Chair, Financial Services Consumer Panel

Annex A – responses to questions

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?

It is important that consumers are signposted to advice and guidance from a trusted source, so they are confident that they are speaking to the best person. With pension scams on the rise, and an increasingly challenging environment with respect to the cost of living, it is more important than ever that consumers feel they can trust the information/advice/guidance they receive.

There is evidence that efforts to nudge consumers into taking guidance can have little effect, while those who do not take up guidance tend to be those who claim to be the least knowledgeable.[1] The Financial Conduct Authority (FCA's) Retirement Income Market Data shows the troubling numbers of consumers who continue to access the pensions market without advice or guidance.[2] The Retirement Outcomes Review likewise highlighted the low level of consumer trust in, and understanding of, pensions, and the impact this has on consumer decision making.[3]

The Panel is therefore of the opinion that automatically booking all members into Pension Wise appointments is the only way to ensure that the policy intent is achieved. This is in line with a recent recommendation of the Work and Pensions Select Committee.[4] The use of 'auto appointments' will help make guidance a normalised stage of members' pension journey and help ensure that they make informed decisions about accessing their pensions.

The Panel would welcome plans to support firms in testing the efficacy and other outcomes of default opt-ins. This could be in the form of government testing with select providers or trustees, using stronger nudges whilst another provider/trustee auto books an appointment with Pension Wise. This would provide a real insight into the take-up rate, perception, impact on understanding levels, decision-making and ultimately the impact on consumer outcomes from the different approaches. Although based on a limited sample size, there is indicative evidence that more than half of people using Pension Wise change their minds after an appointment.[5] Even more encouragingly, around 9 in 10 people who used the service felt it prompted them to consider their options more thoroughly and that they learned something new. [6]

The quality and clarity of the information and support is also important to get right. Whilst consumers should get access to relevant information about their pension scheme, each consumer will be different and will have different needs. DWP therefore need to ensure that information received by consumers is digested and understood. This could be supported by identifying clearer outcomes to be achieved through the provision of advice and guidance, as identified in our response to Question 6a below.

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?

---

[1] https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf
[2] https://www.fca.org.uk/data/retirement-income-market-data-2020-21
[3] https://www.fca.org.uk/publication/market-studies/ms16-1-3-annex-1.pdf
[4] https://publications.parliament.uk/pa/cm5802/cmselect/cmworpen/237/report.html
[5] https://maps.org.uk/2020/10/05/pension-wise-service-evaluation-2019-2020/
[6] https://maps.org.uk/2020/10/05/pension-wise-service-evaluation-2019-2020/

N/A

Question 5: If your scheme has received any feedback from members, or has results from any 'test and learn' activity relating to pre-access communications, what have you learned?

N/A

Question 6a: What information do members need in the run up to retirement such as from age 40-50?

In the run up to retirement consumers need information that allows them to assess how much they need to fund their retirement, how much they have and how they could close any gap. The focus should be on ensuring consumers have enough to fund their desired lifestyle in retirement. In addition to this, consumers would benefit from information related to tracing old and lost pensions, combining pensions, understanding the means by which they can access a pension, the implications for early access, as well as budgeting advice.

It is important, however, that communications are not limited to the run up to retirement. Consumers should not only be spoken to about their pension from 40/50 years old. Earlier interventions, including the use of trigger points such as moves of employer, are important so that people can make timely decisions, and to build their understanding.

A missed opportunity is the underutilisation of effective triggers to persuade people to engage with and review their retirement plans at regular intervals or life events. For example, more could be done to provide communications when consumers change employer, including how much consumers have saved over the course of their employment; the current value of these savings; next steps for consumers who want to consolidate different pots; the costs and charges associated with merging pots.

In general, the Panel advocates a more joined up consumer journey with respect to pensions. It is important to remember that while government and regulation runs in silos, with different organisations leading on different aspects of the pensions journey, for consumers these distinctions are likely to confuse and hinder understanding of their position, and many people will accumulate multiple pension pots across multiple providers and schemes over the course of a career.

This is why coordination is central to the Panel's vision for the pension market, the key aspects of which are:

- A joined-up communications strategy on pension saving, so that government, regulators, and industry speak in a coordinated way on pension issues;
- Guidance being a normal part of the consumer experience, with appropriate opt-outs available, and with personalised information used to activate consumers to seek guidance at appropriate points in their lives and to identify trigger points;
- Consumers understanding of the options available to them, and being able to select an option based on their immediate and potential long-term needs;
- Consumers who are considering accessing their pensions for the first time receive high-quality, impartial guidance on the options available to them, including any tax implications and the risks of holding cash;
- Clarity on complaint processes and routes to redress and compensation - and where there are several routes to redress, an understanding of the most appropriate route to use - should things go wrong;
- Regulators setting clear measurable outcomes when considering appropriate interventions and encouraging appropriate use of behavioural insights to improve the effectiveness of policy interventions.

As a rule, communication on pension issues tends to be overly technical and consumers often feel overwhelmed, which in busy lives can lead to people disengaging. It is therefore vital that communication always be clear, concise, and jargon free.

Question 6b: What information do members need from age 50?

See response to 6a above.

From age 50 onwards, information should be rebalanced to emphasise choices of most relevance to this age group; this could include options for tracing and combining old pensions, topping up existing pots and the implications of accessing a pension early.

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?

In principle, the Panel would support Nest providing a fuller range of income solutions. However, broadening the range of solutions on offer would make it all the more important that consumers receive clear and timely advice and guidance. Behavioural economics suggests that consumers often suffer from feeling overwhelmed and decision-fatigue, particularly in technical domains like pensions.[7] As options become more complicated, it is therefore all the more important to make sure people can understand the implications of their choices; if not, additional options can have the paradoxical effect of prompting people to feel paralysed in the face of complexity.[8]

Question 12: What products or lifestyle strategies should providers give?

The guiding principle should be to act in the interest of the consumer. This means presenting a range of options of highest relevance to the consumer in such a way that they are equipped to make the choice that is best for them. Rather than limiting advice or guidance to a particular set of products or lifestyle strategies, what matters most is that interventions be timely and that information is clear and precise, particularly with respect to the consequences of a person’s decisions. Within this basic principle, care should also be taken not to give advice on options that sit far outside of the risk profile of a typical consumer or that expose the consumer to risks they do not understand.

Question 13: If you don’t provide this, why not?

N/A

Question 14: How could CDCs work in practice in the DC decumulation market?

CDCs have the potential to improve outcomes for consumers. Studies suggest that CDCs could offer improved incomes in retirement, with a boost to retirement income of between a third and two fifths.[9] By making life simpler for members running schemes and reducing the wider burdens of running a scheme - such as the need to make investment choices, and cope with market volatility - CDCs could also free up headspace among employers to reinvest in the much-needed work of helping their employees to engage with pension choices.

---

[7] Iyengar, SS, and Lepper, MR (2000) “When Choice is Demotivating: Can One Desire Too Much of a Good Thing?”, Journal of Personality and Social Psychology, Vol 79, No. 6, 995-1006.
[8] Simon, H.A, (1955) “A behavioural model of rational choice”, Quarterly Journal of Economics, Vol 69, 99-118.
[9] https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/580/58005.htm
See also https://www.thersa.org/reports/collective-pensions-in-the-uk-ii

However, in order for the benefits of CDCs to be realised, it will be important to establish an environment of clarity and trust. Consumers need to be confident that their money is being managed with their interests in mind, with collective pension systems directed ultimately by trustees with no interest or ability to profit at the expense of the beneficiaries. Clear communications will also be critical and indeed required under the new Consumer Duty. This will need to be underpinned by a clear legal basis on which consumer interests will be protected, including for example clarity about routes to redress. A recent report from the Work and Pensions Committee contains valuable insights into the challenges consumers face navigating this complicated and fast-changing landscape.[10]

Question 15a: How do you envisage the decumulation landscape in the trust-based pensions market developing?

The Panel would emphasise, again, the integral role of trust as this market develops. Consumer trust is hard won and easily lost, particularly in a complex domain like pensions. It is therefore vital, as with all nascent markets and policy settlements, that consumers are well-protected from the outset and receive timely advice and guidance as the market develops.

Question 15b: Is your scheme planning to make any changes to your decumulation offer in the future?

N/A

Question 16: In your opinion, would a structured solution in the style of investment pathways benefit members with trust-based pensions, and why?

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?

N/A

Question 18: If you have introduced investment pathways, what is going well and/or what challenges are you encountering?

N/A

---

10 https://publications.parliament.uk/pa/cm5802/cmselect/cmworpen/237/report.html#heading-6

Annex B - Financial Services Consumer Panel response to UK Parliament's Call for Evidence on Protecting Pension Savers – five years on from the pension's freedoms: saving for later life

1. What would help employers support pension savers in making decisions while they save?

According to evidence published by the FCA and TPR[11], employers are reluctant to provide pension support to employees due to their concerns about inadvertently giving advice rather than guidance. More work needs to be done with employers, so they understand the line between support and offering advice. Employers are however able to provide employees with access to independent financial advice however this is a costly process.

Education is a key element in this work. The Future of Global Retirement report[12] found that pension savers in the UK want to take control of their own finances. Therefore, it is important that workplace pensions offer this to employees and that their employer empowers them to make the decisions that are best for them based on their circumstances.

The Panel believe that there needs to be further support and education offered to firms on what they can and cannot do based on their FCA permissions. Employers should also be sign-posting to other organisations who can help their employees. This is particularly true of small-medium sized employers. Finally, it is important to remember that while employer support for saving is vital, over 4 million people in the UK are self-employed, many living on low incomes, and this group must not be overlooked for guidance and support for saving.

2. When and how should the Government implement the key recommendations of the 2017 Auto Enrolment review (for contributions to be paid on earnings from the first pound and to reduce the minimum age for auto enrolment from 22 to 18?)

The Panel believe that the minimum age for auto enrolment should be set to 18 and paid on earnings from the first pound as soon as is reasonably possible. Approximately 5 million employees are not eligible for auto-enrolment and the current situation is unfair to low-paid and young employees. Women are particularly likely to be over-represented in AE, with the consequence that they will be under-pensioned. Implementing these important recommendations will enable consumers to start contributing to and thinking about their pension at an earlier stage in their life. We understand concerns that auto enrolment may divert income away from the lowest paid but evidence on the power of defaults in supporting pension saving is clear cut. Moreover, a voluntary opt-out, as opposed to a voluntary opt-in, still allows the ultimate choice about whether or not to contribute to reside with the individual, hence we support the former. We also understand the affordability issue for employers, but sustainable pension provision is a long-term necessity for national economic and social success.

Defaults, such an opt-out approach, are also valuable for setting norms around saving. This is likely to be particularly important for younger people and may have a long-term impact on how the younger generation consider their pension. Supported by tools such

[11] https://www.peoplemanagement.co.uk/article/1741603/how-employers-can-help-staff-navigate-pensions-minefield

[12] https://www.smart.co/future

as the Pension Dashboard this may result in the shifts in behaviour necessary to ensure that individuals have adequate pension provision for their retirement.

3. Do minimum auto-enrolment contribution rates need to increase, if so, when and how?

There is consensus that the current aggregate rate of 8% will lead to inadequate provision because most individuals will not realise that they need a higher rate of savings and that they will need to contribute beyond the minimum amount.

4. Some people have suggested that if contribution rates for workers increase, they should be able to 'opt down' to a lower contribution rate. Do you agree?

The Financial Services Consumer Panel believe that consumers should be empowered to make informed decisions based on their own circumstances.

The Director of Policy and Market Engagement at Smart Pension, Darren Phillip, who suggested this proposal, also detailed that consideration of an 'opt down' option could change default behaviour which is something the Panel agree with. This option however could prove very tricky to implement as it would be difficult to work out if any reduction in pension payment is being made by the individual, the employer, or a mix of both.

5. To what extent do employers offer encouragements to save more, for example, as salaries increase? Is there a role for Government intervention to encourage more of this?

The Panel believe that Government should be working with employers to ensure that employees are being incentivised to save.

Whilst the Government offers tax incentives for pension savers, the Panel agree that more needs to be done in this area to ensure consumers are saving as much as they need for retirement. Appropriate guidance can play an important role here, which underlines the importance of employers understanding the line between support or advice and guidance.

The Panel would also like to add that whilst consumers need to be incentivised, firms and employers also need to be incentivised to spend the time and resource on educating and supporting their staff. Employers should not see Government intervention as a tick box exercise but truly engage with their staff on this important topic. The UK's self-employed population is also an important priority for support and guidance in relation to savings and pensions, particularly among low income and vulnerable self-employed people.

Please see Annex B for considerations that should be taken into account such as vulnerability of employees, personal circumstances and so on.

6. Should the £10,000 'automatic enrolment trigger' (the level of earnings at which a worker must be auto enrolled) be reduced or removed altogether?

Research[13] shows that around 3 million people are locked out of auto enrolment.

---

[13] https://www.pensions-expert.com/Law-Regulation/Master-trusts-call-for-AE-rate-increase-with-opting-down-option?ct=true

The Panel are conscious that the £10,000 automatic enrolment trigger could be negatively impacting some consumers, mainly those on low incomes with research[14] showing that women tend to make up majority of this group as they do not hit the earnings cap. A report published by think tank Onward[15], estimated that abolishing the £10,000 earnings trigger, alongside a reduction of the age threshold, could see a full-time worker on the national living wage save an extra £93,989 into their pension over their working lifetime.

The Panel encourage consideration of our response to DWP's call for evidence on the Second State Pension Age Review. Our response highlights the issues for consideration in this area such as low earnings, the changing nature of work and other aspects that combined with the trigger, can have negative impacts on different consumer groups. The Panel are aware of the idea of a 'sweet spot' for low-income earners – the spot where they can both contribute towards their pension but also still have enough disposable income. However, in general the Panel is concerned at the idea of addressing a problem of low earnings through delayed or reduced pension saving, which only builds up a problem for the future.

It is also crucial that education is delivered alongside these changes – being auto enrolled does not guarantee consumers a 'good' retirement income so consumers need to be made aware of other options available to them.

7. Do we need a new Pensions Commission?

The potential role and remit of a new Pensions Commission is not evident, and particular groups of consumers will continue to be disadvantaged while waiting for its outputs.

[14] https://www.pensions-expert.com/Law-Regulation/Master-trusts-call-for-AE-rate-increase-with-opting-down-option?ct=true

[15] https://www.pensions-expert.com/Law-Regulation/MP-seeks-to-extend-auto-enrolment-to-18-year-olds