PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Pensions and Lifetime Savings Association
4 St Dunstan's Hill
London EC3R 8AD

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Pensions Policy Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Subject: PLSA Response to FCA Discussion Paper 24/3 – Pensions: Adapting our Requirements for a Changing Market

The landscape of the pensions industry is shifting. Savers within private sector DC pension schemes are increasingly expected to understand and engage in their pensions. This shift in consumer expectation has strong implications for the industry and its role in ensuring strong retirement outcomes for diverse savers across the country, as the balance shifts from the majority saving in DB arrangements – where decisions were made for savers – to DC ones – where savers are more individually responsible for their retirement.

As saver responsibility and engagement increases, Regulators will play an important role in supporting – and not restricting – the industry to educate and guide savers, as they work together toward the shared goal of achieving strong saver outcomes.

As it is the PLSA's mission to help everyone achieve a better income in retirement, we appreciate the opportunity to respond to FCA discussion paper (DP) 24/3. Pension tools and modellers, pot transfers and consolidation, and Self-Invested Personal Pensions (SIPPs) will all require increased thought and scrutiny to support savers with what can sometimes be highly complex decisions.

Although we understand saver engagement plays an important role in helping savers achieve stronger outcomes – and important questions remain on how to interact with consumers safely and effectively – **the biggest challenge in the DC landscape remains adequacy**. According to PLSA research, more than 50% of savers will fail to meet the retirement income targets set by the 2005 Pension Commission.

The focus of Government and Regulators on saver engagement is important, but more work needs to be done on building on the strength of automatic enrolment (AE) – the bedrock of DC savings.

The fundamental success of AE is largely due to the inertia of the policy itself – savers are saving automatically, without opt in, and employers are doing more. Because of it, 19.4 million new savers put money towards retirement. This success is clear testament to the power of well-designed policy, demonstrating that systemic solutions—rather than individual effort alone—are key to improving retirement

outcomes. Government, Regulators and industry must set their focus on developing innovative and inclusive policies that set savers up for success collectively and – like AE reform – automatically.

That said, the PLSA will continue to support the Regulators in their concurrent efforts to strengthen policy across the topics within FCA DP 24/3, particularly on tools and modellers and DC transfers and consolidation, where risks remain for savers. The following recommendations are built on the basis of feedback received from PLSA members across these areas. We have also included one additional recommendation at the end of the paper related to the broader UK economic growth agenda.

Chapter 3: Tools and modellers for existing pension savers

Tools and modellers for savers within DC schemes could serve to educate and aid them in making appropriate pension decisions, both within accumulation and decumulation. As the industry would be responsible for providing many of these tools and modellers – as well as the support, guidance, and advice to consumers looking to take action based on these projections – they must be of high standard to ensure strong saver outcomes.

Recommendation 1: Regulators to Produce Joint View or Guiding Principles for Tools & Modellers

The Government plays an important role in ensuring high standards. Regulations and guidance should not only support uniformity and accuracy in the assumptions used to generate pension projections but should also ensure clear and straightforward communication to consumers about that information and its implications. This includes across the FCA, TPR, and FRC. A joint view or guiding principles should, at minimum, include:

- Regulators' reasonable expectations of savers engagement with/understanding of their pension (in other words, the purpose and objectives of tools and modellers).
- Minimum data requirements and standardised methodologies for tools and modellers, to ensure high quality and - where appropriate – similarities across scheme types. Specifically, we would like to see the FCA work with the FRC to come to a joint view on projection methodologies. We have highlighted our concerns to the FCA on the ASTM1 methodology for Statutory Money Purchase Illustrations, the misleading calculations this is causing, and the risk of savers being presented with one figure on a dashboard, and another on an FCA-regulated post-view service.
- Information to effectively incorporate tools and modellers into post-view dashboard services, including how projections would incorporate numerous pots, communication to savers around these projections, and any advice or guidance that follows.
- Consideration for leveraging AI in strengthening the accuracy of projections and communication to savers and delivering support to those that need it at low cost.

The Government should – in all its work – lead with the consumer view/journey in mind. Whether a consumer falls within a trust-based or contract-based scheme should make no material difference to their retirement outcomes, which is why PLSA members emphasised the need for joint regulatory consideration of tools and modellers.

Chapter 4: DC pension transfers and consolidation

The launch of the pensions dashboards programme – and the likely increase in engagement that will follow – may also lead to an increase in pension transfers and pot consolidation.

Recommendation 2: Ban transfer incentives

The PLSA believes that there should be a ban on incentives regarding pension transfers. The FCA's Consumer Duty regulations protect consumers from regulated firms exploiting behaviour biases. Pensions are a long-term financial commitment. Adverts offering cash incentives to individuals who transfer their pension may exploit people's present bias, as it could influence members to focus on the immediate cash reward and neglect the medium- to long-term financial implications.

A recent study commissioned by the People's Partnership found that cashback incentives motivated people to transfer their pensions: people who saw a £100 cashback incentive were almost 20% more likely to say they would transfer their pension to an option that would leave them £1,000 worse off over five years.

Another study from the same scheme on member behaviour surrounding pension transfers found members consolidated mainly to 1) simplify their finances and 2) not lose track of their pensions. However, the research also made clear that many members don't fully understand the implications of transfer decisions and felt disappointed by the lack of support and guidance from the industry, underscoring the need for more education.

Given the risks associated with pension transfers and saver susceptibility towards immediate cash reward – and in the absence of Government intervention to ban incentives – the FCA should be robust in its assessment of firms' continued intentions to offer incentives, despite the introduction of Consumer Duty.

Recommendation 3: Education for members on transfers

PLSA members agreed that the industry should provide clear guidance and support to members on the implications of pension transfers, as made evident from The People's Partnership research conclusions, noted above.

PLSA believes that a tool for members to compare transfer options in a simple and straightforward way would be positive. However, a firm's ability to provide additional guidance and support to as many savers as possible heavily hinges on the FCA's final rules on its Advice Guidance Boundary Review (AGBR). We encourage

the FCA to think about saver advice and guidance holistically, including additional clarity on simplified and holistic advice (and how this will work with targeted support) as well as the advice guidance boundary. This review should include consideration for how tools and modellers will be incorporated into the improved advice guidance system. The PLSA recently provided recommendations to the FCA's consultation on one aspect of the AGBR, targeted support, here.

Savers should also be aware of the value for money (VFM) their pension offers, and this includes when transferring their savings. This should be communicated to savers in a concise, clear way. However, the responsibility for assessing whether a pension scheme offers VFM should primarily fall on trustees, Independent Governance Committees (IGCs), and employers rather than individual savers.

In addition, the Government must continue to make progress on ending the proliferation of small pots. We expect to see the multiple default consolidator model legislated for in the pending Pension Schemes Bill, a model that the PLSA supports. Industry, in partnership with the DWP, has done a significant amount of work on this model over the past 12 months. See PLSA recommendations on these issues, here.

Recommendation 4: Protect members from scams

The transfer and consolidation process must link closely to protection for consumers against scams. This is particularly important within consumer dashboard journeys. As the forthcoming pensions dashboards programme aims to increase pension awareness and engagement, this could lead to increases in pot consolidation where this is not in the savers' best interests.

With these potential increases in consumer engagement, the FCA must take proactive steps to protect consumers – including the most vulnerable – from being drawn into scams. The FCA's ScamSmart campaign should include key warnings and messages, including throughout the dashboard journey, to ensure consumers don't become victims of fraud.

Recommendation 5: Strengthening transfer suitability tests

As a rule, it is important to ensure that the receiving scheme is at least as suitable as the transferring scheme. This is as important for DC to DC transfers as it is for DB to DC transfers, however in the latter case more stringent rules apply. It would be reasonable to make sure that advisers recommending any transfer should be responsible for stringently testing a transfer's suitability.

Chapter 5: Self-Invested Personal Pensions (SIPPs)

The SIPPs market, which has grown substantially in recent years, provides greater control and choice for individual consumers on how their retirement savings are invested. A general lack of confidence in pensions – and the increased

engagement/awareness of pensions on the workplace savings side – could entice people towards retail savings products that don't necessarily suit their needs, especially if prompted by incentives towards products that may be many times more expensive.

Recommendation 6: Ensure strong quality standards for SIPPs

Though the requirements for protections and standards across different types of SIPPs may technically differ across firms offering SIPPs – and those in place for workplace pensions – the Government and Regulators should ensure a consistency of standard regardless of the provider.

Our longstanding belief is that the Government should help ensure strong outcomes in workplace pensions, regardless of scheme type. For us, and as with SIPPs, it is more significant that savers receive appropriate protections based on the context of their pension, regardless of the regulatory framework applied to it.

The FCA's high-level rules and guidance have helped to progress standards across the SIPPs market, though more detailed Handbook rules could help protect consumers, both improving the consistency of due diligence across SIPPs as well as the FCA's own supervision and enforcement capabilities. Additional prescription for pension scheme monies and pension scheme assets could also help introduce additional necessary protections for savers within SIPPs.

Recommendation 7: Strong scam protections for savers within SIPPs

SIPPs require individuals to understand and engage in their retirement savings in more complex ways than workplace pensions. Not only do individual investors have greater control over where their money is invested, but they also often access wider investment options, and they have less governance functions acting on their behalf and taking decisions in their best interests. Given the higher level of individual engagement, savers within SIPPs may be more susceptible to scams. As the average size of a SIPP pot is often higher than other types of pensions, this may also mean they are more frequently targeted by bad actors. This combination puts SIPP savers at high risk, and Government standards for scam and fraud protection should consider to the specific risks these savers face.

Recommendation 8: Advice and guidance for people in SIPPs

The SIPPs market is large and growing – in 2024 the total assets under administration within SIPPs reported by all firms stood at £567bn, for approximately 5.3m consumers. Given this, as the FCA continues its Advice Guidance Boundary Review – and works with TPR to consider how advice and guidance apply in the trust-based space – consideration could also be given to support and protect savers within SIPPs.

Though consumers within SIPPs may be more suited for simplified or holistic advice, given their unique individual savings vehicles, it should not be ruled out that these

savers may also benefit from a more generalised form of guidance such as targeted support – for instance, nudges towards appropriate risk investments or sustainable drawdown rates. Whether targeted support would suit SIPPs savers is, of course, contingent on the form it takes once the FCA finalises its targeted support rules.

UK Economic Growth

Recommendation 9: Exempt DC Default Funds from Permitted Links rules

Finally, we would like to draw attention to one issue regarding the broader agenda of UK economic growth, referenced in Chapter 1. While we acknowledge this is not a focus of this paper, and also welcome amendments the FCA has already made to permitted links rules for pension schemes in recent years, this remains an example of an uneven playing field between schemes that invest through 'life platforms' and those that do not. This is because the former are still constrained by a cap on illiquid holdings. Given these rules were brought in to protect retail investors – and DC defaults are managed by trustees operating under fiduciary duty and taking professional advice – we would encourage FCA to consider exempting such defaults from these rules.

Conclusion

The PLSA is grateful for the opportunity to submit recommendations in response to FCA DP 24/3. As the pensions landscape continues to evolve, it is essential for the Government and Regulators to collaborate closely with the industry to ensure that savers are well-informed, supported, and protected. By adopting high standards for tools and modellers, prohibiting transfer incentives, enhancing education and guidance, and implementing robust scam protections, we can help savers achieve better retirement outcomes.

Above all though, the primary focus for Regulators as they work to adapt their requirements to the changing market must be developing policy solutions to tackle adequacy – solutions that, like AE, are holistic, inclusive, and automatically set savers up for success.

The PLSA is committed to working with the FCA and other stakeholders to navigate these changes and to support the financial well-being of all savers. Please contact PLSA Policy Lead, Krista D'Alessandro, with any questions or concerns.