PENSIONS AND LIFETIME SAVINGS ASSOCIATION

STRONGER NUDGE TO PENSIONS GUIDANCE

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ABOUT THE PLSA

Our mission is to help everyone achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

We represent the defined benefit, defined contribution, master trust and local authority pension schemes that together provide a retirement income to 20 million savers in the UK and invest £1 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs and others who play an influential role in the governance, investment, administration and management of people's financial futures.

INTRODUCTION

Many people struggle to access the guidance and advice they need to make informed decisions about how to access their pension. The Money and Pensions Service (MaPS) listening document identified that 22 million people in the UK didn't know or understand enough to plan for their retirement. We support initiatives that explore measures which could increase the number of people that access guidance.

The PLSA has been a supporter of Pension Wise, since it launched in 2015. Pension Wise consistently sees satisfaction rates from users in the mid 90s with almost 80% of those users being very satisfied with their appointment. There is still a need to go beyond this and test efficacy in terms of outcomes and with the service being mature we believe this should be done now.

We accept that DWP has been mandated by legislation to bring forward measures that increase uptake of guaranteed pensions guidance and we are supportive of these efforts. However, there a needs to be further trials of some of the alternative measures of delivering a nudge and of pensions guidance, as these could deliver better uptake of guidance than what has been tested so far. Additionally, any adjustment as to who can give guidance must be given greater thought to make sure employers, schemes and certain professions (such as regulated IFAs, lawyers and accountants) can and that pension scammers and well-meaning amateurs cannot.

As part of our response to this consultation we carried out a survey of our membership between the 29 July and 11 August; 41 of our member schemes replied. We have included some of the results from the survey in answer to questions posed by the consultation. We also received direct feedback from some of very well informed members who feel strongly about the issues raised.

In the PLSA's Hitting the Target report (2018)[1] we recommended measures be taken to increase uptake of Pension Wise. Members have indicated they would like to see more trials of other approaches to delivering the guidance and the appointment booking process prior to implementing the recommendations to assess the efficacy of different approaches. Therefore, on the whole, we would suggest that further user trials on approaches to stronger nudges including the use of interactive guidance videos and automatic appointments.

These recommendations have been tested by pension providers and schemes on real users and have been found to slightly increase the amount of savers receiving Pension Wise appointments. We are interested to note that DWP and FCA are consulting separately on slightly different approaches to this policy, and we believe DWP's approach more closely mirrors the recommendations tested on real savers. Some of our members have questioned whether the slight increase in uptake of appointments, as yet unproven across the market outside of test conditions, justifies the net increase in costs, especially as these are costs that savers will ultimately face and saver experiences may also suffer.

[1] https://www.plsa.co.uk/Policy-and-Research-Defined-Contribution-Hitting-the-target-project

There is clearly more to be done to increase Pension Wise appointments even further and this is why we welcome exploration of earlier nudges and why we support the concept of exploring options for automatic appointments at least 5 years out from Normal Retirement Dates. Either of these additional interventions would need to be user tested before introduction to understand the likely impact on member outcomes and balance the cost on schemes. There are other life moments in which the saver could be nudged to guidance, such as having a decumulation discussion during a Mid-Life MOT, and these could allow for more advance planning and more informed decisions.

Guidance and increased saver engagement are not the only answer to improving retirement outcomes for the savers. There are other ways to improve the pension journey for savers and especially at the decumulation stage. The PLSA has designed Guided Retirement Income Choices[2] that would create a new statutory obligation on schemes to support their members at retirement with their decumulation decisions. It is worth noting that under our framework while all captured schemes have the obligation to provide support, none are forced to provide the income choices in-house. For example, smaller schemes could choose to simply signpost to appropriate products or solutions provided by others, where they meet minimum standards.

There are three key elements in the proposal:

- Member engagement and communications
- Providing or sign-posting to suitable products (likely to be blended)
- Governance standards for the design or selection of the products.

The key objectives of the proposal are:

- To provide more support to savers who do not engage with their options (learning lessons from the success of AE and the limitations of the OMO) and mitigate or help manage some of the risks savers face.
- To support freedom and choice for those savers who do engage.
- To positively influence and facilitate future product development in the interest of savers, particularly with a view to manage the risks for savers as dependency on DC derived incomes increases and DC pots grow.
- To utilise both the benefits of scale and governance strengths of the trust-based fiduciary duty and Independent Governance Committee responsibilities.
- To support similar saver experience across the market, whilst enabling innovation to flourish.
- To mitigate some of the key risks schemes are facing in delivering better decumulation solutions, such as litigation, financial and operational risks.

[2] https://www.plsa.co.uk/Policy-and-Research-Document-library-DC-Decumulation-Final-Recommendations

There is also a case for the advice/guidance boundary to be reviewed in the pensions context to ensure that schemes and employers, who are well placed to give help along the journey, are able to do what savers need without accidentally undertaking a regulated activity. The PLSA stands ready to provide evidence of areas where the boundary could be clarified or adapted and other regulated activities need to be reconfigured. We would hope that DWP would be ready to review these alongside us.

CONSULTATION RESPONSE

Question 1
Do you agree with our proposed approach to defining when the Stronger Nudge should be delivered? If not, what changes do you consider necessary?

Our members already take every effort to signpost to Pension Wise at appropriate moments in the consumer journey. The PLSA generally agrees with the proposed approach in respect of defining the timing, which will make sure that those who have already received a nudge to guidance, and have either taken it or have opted out, are not nudged again. We further agree that leaving the timing to the discretion of trustees and not having a stronger nudge requirement for consolidation or for transfers in are all sensible measures.

Conversely, we are not supportive of the FCA's proposed approach to include those that have received financial advice or guidance from Pension wise as we believe this introduces unnecessary friction into the process for those that are already engaged in making informed decisions. This could be augmented to ensure that those with multiple pension pots are not going through a stronger nudge process for each pension pot.

More generally, we are supportive of earlier financial education to ensure that savers are better equipped to comprehend the options that they have available to them. This might also include a more holistic, and wider than pensions, understanding of debt, savings and financial products. It is also worth noting that savers cannot be forced to take guidance, but that it is the members' choice what information sources they use and what support they seek; members should be encouraged to take action themselves in such a way that is fitting to their own needs.

Question 2
Do you agree with our proposed approach to appointment bookings? If not, what changes do you consider necessary?

On the whole, we agree with the approach to appointment bookings. The methods suggested align with the views of our members and gives trustees and managers a choice on how they exercise the appointment booking process. We surveyed our membership and 50% felt that embedding online links to Pension Wise booking service on their own online portals would increase uptake in the Pension Wise service. 58% felt that targeted communications would also increase uptake. On the other hand, 33% of members would favour an automatic booking service that could bypass the pension scheme booking the appointment.

We believe that it may be necessary to do further user testing of each of these before moving straight to implementation as it is important to assess and compare the costs and benefits of different possible interventions.

Question 3
Do you agree with our proposed approach to requiring an opt out in a separate interaction? If not, what changes do you consider necessary?

Yes, we support the balance of pragmatism and appropriate, additive friction that this approach represents, particularly that the opt out is a second stage and through a different channel of communication. We also welcome trustees and managers having discretion on how this friction is applied. This discretion will hopefully allow our member schemes to design journeys that best suits their membership, whilst mitigating potential costs and logistical challenges. For example, for those schemes that offer an in-house pensions team offering support, guidance and subsidised regulated advice requiring everyone to go to Pensions Wise would be repetitious and wasteful.

Generally, we also agree that recording the opt out rather than the reason for opt out is sufficient (see also Question 8).

Question 4
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?

The PLSA agrees with the approach taken despite it resulting in extra costs to pension schemes and providers; there will be additional record keeping requirements that may mean changes to systems and processes.

Question 5
Are the proposed exemptions sufficient? If not, what changes do you consider necessary?

The proposed exemptions are largely sufficient and make sense. It is preferable that people who have already recently received regulated financial advice or Pension Wise guidance are exempt. This last point is of particular concern to savers with multiple pots.

It is practical, compassionate and helps with the urgency of many such cases, that serious ill health lump sum cases are exempt.

We would suggest also exempting AVCs and DB-DC Hybrid schemes as the Pension Wise appointments are not designed to deal with the complexities involved with decumulation options for these schemes.

Question 6
Is an exemption for small pots necessary? If so, how should a small pot be defined?

We believe an exemption for small pots is necessary. Guidance is less useful to savers for pots of very low values, as they are unlikely to be used as part of a long-term retirement income, and will instead be taken as cash. A requirement to nudge would also add an additional layer of cost to schemes to administer these pots. Other actions to resolve small pots and make them more valuable to savers is needed and this is being considered by a Cross-Industry Co-ordination group, but exemptions for (both member initiated and any future potential automatic) consolidation should be explicit so as not to act as a future barrier to this work.

As an initial step, according to our members, a small pot could be set as £5,000 for pensions guidance purposes.

Question 7
Will our proposed exemption for those accessing their pension as a Serious Ill Health Lump Sum cover all those who should be exempted from the enhanced opt out on health grounds? If not, what changes do you consider necessary?

Serious Ill Health retirement is determined using evidence from a medical practitioner who has determined that the individual has less than a year to live, and on this the exemption largely covers all those who should be exempted on health grounds. The one exception to this may be those that are not covered by the definition for fiscal reasons, i.e. having already used up their lifetime allowance. These people may still need to make urgent decisions on health grounds, but not entitled to the tax free treatment of any lump sum payment, and on medical grounds they should also be exempted from the stronger nudge process.

Question 8
Do you believe our proposed approach to record keeping is proportionate? If not, what changes do you consider necessary?

The approach to record keeping is proportionate as the requirement is limited to recording the incidence of the opt out (or not) and does not require a record to be taken of the reasons for the opt out. This will, however, still represent the introduction of extra costs and present logistical challenges.

Question 9
Do you agree with our proposed approach for coordinating the Stronger Nudge and Scams Guidance appointments? If not, what changes do you consider necessary?

In the situation where an individual is referred by their pension scheme to both a MaPS scam appointment and a Stronger Nudge appointment there needs to be some thought given by DWP which should come first for the sake of consistency. It would appear to make more sense for a transfer to go through the due diligence first and determine whether there are any red or amber flags prior to the saver being nudged to guidance.

Question 10
Do you foresee any problems with the interaction between the Stronger Nudge and existing signposting provisions? If so, what changes do you consider necessary?

Dis-applying regulations 18A and 18B in cases where 18C applies is a good measure to avoid duplication of nudges/signposting to Pension Wise and we support this. This is especially important as many savers have multiple pots and could be making decumulation decisions on each of them at the same time.

Question 11
Are you content that regulation 2 successfully achieves its purpose? If not, what problems do you foresee and what changes do you consider necessary?

The measures on transfer deadlines is sensible to allow for cases where pension guidance appointments still need to take place.

On another note, we believe that the definition of who provides pensions guidance may need to be addressed with greater care. The proposed regulations appear to define the providers of pension guidance too broadly as anybody setting out the options. There are very good reasons to allow more actors to carry out the defined pensions guidance, such as pension schemes or employers, but all unintended consequences should be considered. We are not of the view that this regulation should be the vehicle to making changes to defining what does and doesn’t constitute pensions guidance.

Question 12
What do you anticipate will be the one-off impact of implementing the Stronger Nudge in to each channel (phone/post/digital) you offer? Where costs are incurred, please provide an estimate and any information you feel would be useful to us in understanding these costs.

Almost half (47%) of our membership, when surveyed, did not know the cost of implementing the Stronger Nudge. Where responses were given these ranged from £1,000 to £50,000. One in ten say they will be minimal as the nudge is likely to be integrated into electronic channels of communication. Others believe it could be costly as will require a whole new set of processes for systems to collect and record proof of opt outs.

Question 13
What do you anticipate will be the on-going impact of implementing the Stronger Nudge in to each channel (phone/post/digital) you offer? Where costs are incurred, please provide an estimate and any information you feel would be useful to us in understanding these costs.

Further information is needed to assess this question across the industry as, when surveying our membership, two in five (41%) had no idea how much the ongoing costs will be of Stronger Nudge across their channels of engagement. Where responses were given, these ranged from £1,000 to £30,000, with one saying £50 per member. Others are concerned about consumer detriment. One member said that the ongoing costs are dependent on channel, with the guidance being currently unclear for postal applications.

Question 14
Where costs are incurred, would you expect the cost to be absorbed, passed on to employers, or passed on to individual members?

Views amongst our membership were divided, when surveyed, as to whether costs will be absorbed by employers, schemes or members. One in five stated that scheme members would have to absorb the costs. 38% of our members said that employers would absorb the cost, the exact same proportion expected that schemes would absorb it. Ultimately though the costs are likely to be passed on to the member in a DC scheme or Master Trust and this is predominantly where these recommendations will impact.

Question 15
Do you anticipate any benefits to your business from implementing the Stronger Nudge? Please provide a monetary value where possible.

When surveying our membership, there were mixed views as to whether the Stronger Nudge will bring any benefits to schemes, with almost half anticipating benefits (44%), but with two in five (38%) not anticipating any benefits.

Most who believe there will be benefits anticipate that it will help members to be more informed and that there will be less risk of member complaints. For those who do not believe there will be a benefit, this is mainly because they already signpost to Pensions Wise, or offer alternative guidance or financial advice services.

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

When asked, PLSA members anticipated the main non-monetised challenges when implementing the Stronger Nudge to be extra member communications (57%), record keeping duties (50%), system changes (50%), and insufficient resources (43%).

Question 17
Do you believe there are reasons to include a statutory review provision in the proposed regulations?

We would strongly support a statutory review provision being included. It has proved invaluable in the case of the Chair's Statement and there are three major reasons why we would support it for Stronger Nudge.

Firstly, with 47% of our members not knowing the cost of implementation and similarly 41% finding it hard to estimate the ongoing costs, it is difficult to say with any certainty at this stage that the regulations would not have a significant impact. If a review were to take place in 3 or 5 years time, there would be greater certainty of the costs at that point, albeit a review sooner rather than later could make changes that would reduce undue cost burdens.

Secondly, although the knowledge of costs for implementation and ongoing running of Stronger Nudge is limited at this stage, there is still sufficient evidence, amongst those that are able to estimate it, to suggest that for the pensions industry with over 10 million savers in 2020 there is a material impact. To extrapolate the evidence we have gathered of a subset of schemes to all schemes, it is plausible to suggest that the threshold of £5 million will be surpassed in future years.

Finally, as with Chair's Statement, we believe it important to assess the impact of this intervention to provide evidence that in real world circumstances it is delivering increased Pension Wise appointments, while also accepting that the mere increase in appointments is a poor proxy for better outcomes for members without measuring other factors. Though we agree with stronger nudges to pensions guidance we are not convinced that the overall benefits of this initiative necessarily outweigh the costs unless the projected material impact on members' outcomes is measured and assessed; though we agree with the intent wholeheartedly, we would expect the Government to critically assess the impact over time as this is good practice in the spirit of continuous improvement.

Question 18
Do you consider the proposed regulations achieve the policy intent?

We believe that the proposed regulations will help to achieve the policy intent. There were mixed views amongst our membership as to what should be a demonstration of success; two in five (45%) feel if 25-49% take guidance that is a success, while a similar proportion (41%) feel if 50-75% take up guidance that is a success. One in ten (10%) feel it will be a success if more than 75% take up guidance.

Other measures could be considered such as automatic Pension Wise appointments, maybe associated with an age trigger point for example. We would also like to see a meaningful reassessment after the statutory review focusing on real world impacts of the intervention, changes to the advice/guidance boundary so that schemes can be supported in providing support for savers and a tightening up of the proposed definition of pension guidance contained within these regulations to reduce the risks loopholes leading to saver harms.

The UK Financial Wellbeing Strategy set a target of 5 million more people understanding enough to plan for their retirement. Under our Guided Retirement Income Choices proposal savers would receive more support throughout their journey into retirement and this should therefore help to resolve the current ‘guidance gap’ that will otherwise persist.

Therefore, we think overall the future decumulation market needs to combine the following components:

- Continue efforts to signpost savers to MaPS - MoneyHelper for general information about pensions;
- Support from schemes in the form of Guided Retirement Income Choices;
- Wraparound advice models – providing support in personal finances at low cost throughout the whole of someone’s life, including advice on their pension ‘from cradle to grave’;
- Streamlined advice services, including technology-based (automated) solutions; and
- Innovative, mass market solutions to provide support, guidance and enhanced guidance – some of which should be provided by MaPS - MoneyHelper.

We would also like Pension Wise appointments to shift to providing more semi-personalised or personalised guidance as this could increase uptake and satisfaction. We responded to the Money and Pensions Service Listening Document, with a recommendation that the Pension Wise Appointment could provide a generic recommendation on the most suitable option if the definition of advice were changed or a carve out created.

Evidence provided to us while we were developing Guided Retirement Income Choices showed that more than a quarter of those who tried to access their pension didn’t go through with it because they were confused about the options.

Research finds that the need for advice and guidance changes throughout the course of retirement as people’s cognitive abilities are impaired people often increasingly struggle to understand financial concepts (such as charges and fees, or inflation)[3].

In summary, savers need advice, guidance and support that meet the following needs:

- Explain and support in managing all the risks they face,
- Give simple and straightforward indications of what action to take,
- Be affordable, and
- Potentially provide one off and/or ongoing support as circumstances or needs change.

[3] https://www.pensionspolicyinstitute.org.uk/research/research-reports/2019/2019-10-22- supporting-later-life/ and see also, for example, Agarwal, Sumit and Driscoll, John C. and Gabaix, Xavier and Laibson, David I., The Age of Reason: Financial Decisions over the Life-Cycle with Implications for Regulation (October 19, 2009).

Without all of these needs being met savers risk being disappointed or dissatisfied with the experience and the benefit of the intervention overall would be lower than estimated or, indeed, in the worst case scenario net detrimental.

Question 19
Do you foresee any unintended consequences in our proposed approach?

The definition of pension guidance needs more thought to ensure that it is not too open to unscrupulous behaviours from persons unsuitable to deliver guidance.

There is a view from a significant proportion of our membership that the process could increase either costs or complaints disproportionately. We would recommend more user trials with the different approaches mentioned in the consultation and our response prior to implementation, as away of testing alternative approaches and mitigating costs to industry of implementing an ultimately ineffective intervention. Testing of other approaches should also assess whether the positive impact on overall appointments sufficiently outweighs the necessary compromises that are introduced in saver experience.

Question 20
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 do not have any specific comments on this assessment.

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