Department
for Work &
Pensions

Helping savers understand their pension choices

Response to the products and services element of the call for evidence and the public consultation on a policy framework to support individuals use their pension savings in decumulation

July 2023

Contents

Introduction

This document sets out the feedback the Department for Work and Pensions (DWP) received to the products and services elements of the call for evidence[1] which ran between 14 June 2022 and 25 July 2022.

That section of the call for evidence concentrated on:

- What support and decumulation products are currently on offer to members, and what may be offered to them in the future.

About this document

Purpose

This document includes:

- A response to the products and services element of the call for evidence;
- A set of policy consultation questions on support and products to be made available to members of occupational pension schemes; and
- Exploring next steps.

Who this consultation is aimed at

We would particularly welcome responses from:

- Pension scheme trustees and managers;
- Pension scheme service providers, other industry bodies and professionals;
- Employers who sponsor an occupational pension scheme; and
- Individual pension savers.

Scope of consultation

This consultation applies to Great Britain. Occupational pensions are a devolved matter for Northern Ireland, and we are working closely with counterparts in Northern Ireland at the Department for Communities in relation to the matters set out in this consultation.

Duration of the consultation

The consultation period begins on 11 July 2023 and will run until 5 September 2023.

[1] Helping savers understand their pension choices - GOV.UK (www.gov.uk)

How to respond to this consultation

Please send your consultation responses via email to:

caxtonhouse.retirementdecisionscallforevidence@dwp.gov.uk

Government response

We will publish the government response to the policy consultation on the GOV.UK website.

How we consult

Consultation principles

This consultation is being conducted in line with the revised Cabinet Office consultation principles published in March 2018. These principles give clear guidance to government departments on conducting consultations.

Feedback on the consultation process

We value your feedback on how well we consult. If you have any comments about the consultation process (as opposed to comments about the issues which are the subject of the consultation), including if you feel that the consultation does not adhere to the values expressed in the consultation principles or that the process could be improved, please address them to:

DWP Consultation Coordinator
Legislative Strategy Team
4th Floor, Caxton House
Tothill Street
London
SW1H 9NA

Email: caxtonhouse.legislation@dwp.gov.uk

Data Protection and Confidentiality

For this consultation, we will publish all responses except for those where the respondent indicates that they are an individual acting in a private capacity (e.g. a member of the public). All responses from organisations and individuals responding in a professional capacity will be published. We will remove email addresses and telephone numbers from these responses, but apart from this we will publish them in full.

For more information about what we do with personal data, you can read DWP's Personal Information Charter.

Ministerial Foreword

The UK has seen significant growth in the number of people saving into an occupational Defined Contribution (DC) scheme from a total of 2.3m memberships in 2012 to now over 26.3m (including hybrid schemes). This expansion alongside the introduction of pension freedoms means that many more people will need to make important decisions about how they want to access their pension savings.

In July last year, the call for evidence 'Helping savers understand their pension choices' was open for responses from occupational pension scheme members, customer representative groups and the pension industry.

I am very grateful to all who took the time to provide comments to inform our policy thinking.

I am launching this consultation to set out our proposals for, and seek views, on a decumulation framework that will provide support at the point of access. In addition to the existing choices available to members under the pension freedoms, this could include an offer of a Collective Defined Contribution (CDC) arrangement in retirement. My objective is to help savers achieve better outcomes through provision of CDC, where members can benefit from greater investment opportunities and consolidation in the market whilst supporting the wider government agenda around productive finance.

Taken together with the reforms I consulted on to expand CDC schemes to multi-employer schemes, these proposals provide the foundation to build on my longer-term vision to improve fairness, predictability and adequacy for savers.

This is a real opportunity to help shape the next stage in one of the most challenging and significant issues in Private Pensions. That is why I encourage all interested parties to respond and play their part in helping improve outcomes for todays and tomorrow's pensioners.

The DWP has published a number of documents today, all designed to drive better outcomes for pension savers. These are all part of a wider government agenda to improve opportunity for investment in alternative assets including in high growth businesses and improve saver outcomes. We believe that a higher-allocation to high-growth businesses, as part of a balanced portfolio, can increase overall returns for pensions savers leading to better outcomes in retirement. In addition, we want to ensure that our high-growth businesses of tomorrow can access the capital they need to start up, scale up and list in the UK. DWP have been working closely with HMT on this wider package which was set out by the Chancellor in his Mansion House speech.

Laura Trott MP, Minister for Pensions

Chapter 1: Background

1. It is widely recognised that the way we use private pensions to support later life income is changing. In 2021/22, most individuals (90%) receiving a private pension payment did so only through a Defined Benefit (DB) pension or annuity. However, only around half (51%) of individuals accessing a private pension for the first time did so through a DB pension or an annuity in 2021/22 compared to 62% in 2015/16.[2] This trend is set to continue declining with 90% of private sector DB schemes now closed to new entrants[3]. On the other hand, the number of Defined Contribution (DC) active or deferred memberships in the trust-based market has increased from around 2.2m in 2011 to 26.3m in 2022 with over 6.7m memberships being aged 50 or above[4].

2. Prior to the introduction of pension freedoms, the vast majority of those who were contributing to a DC pension were required to purchase an annuity with their pension savings, which would guarantee them an income in later life. Since, there has been a decline in annuities being purchased with only 10% of pension pots in the contract-based market being accessed in this way in 2021/22, whereas 29% used to purchase a drawdown product and over half (56%) being fully encashed.[5]

3. The introduction of pension freedoms has allowed for more choice and control for savers, while also placing more responsibility on the individual saver through longevity and investment risk. Pension savers are more likely to engage with their pensions when they approach retirement, 49% of people aged 18-54 have reviewed their pension pots in the last year, compared with 65% of those aged 55-64.[6] Many may need assistance in order to make informed choices on how to fully utilise their pension savings to maximise their later life income. Findings from DWP's Planning and Preparing for Later Life Survey (PPLL) found the proportion of people reporting they had a clear plan for how to take their DC pension increased with age. However, still only 29% of 55–59-year-olds said they had a clear plan and 17% reported that they did not know they had to make a choice.[7] Of those that have a plan, two-thirds (66%) reported that they planned to take at least some of their pension as a lump sum whilst one in five (22%) reported that they planned to take all of their pension as a lump sum. This presents a risk to the adequacy of their future pension income.

[2] Stopping Saving and Pensions in Payment Statistics, DWP (2023) – See Annex A for a summary of the data.
[3] The Purple Book 2022 (ppf.co.uk)
[4] DC trust: scheme return data 2022 to 2023 | The Pensions Regulator
[5] Retirement income market data 2021/22 | FCA
[6] FCA Financial Lives Survey 2022
[7] Planning and Preparing for Later Life - GOV.UK (www.gov.uk)

4. In 2018, the Financial Conduct Authority (FCA) published its Retirement Outcomes Review (ROR)[8], for those pension providers it regulates. This explored how consumers and providers were responding to pension freedoms. The review was intended to assess how the DC market was evolving, to address emerging issues that may cause consumer harm and to put the market on a good footing for the future. It then took action to:

   - Help consumers make informed choices about their pensions; and
   - Protect those who are less engaged from poor outcomes.

5. Government has the same goals for those individuals in the trust-based market which is why we asked:

   - What do people want to achieve from their pensions; and
   - What support is available to help them make informed decisions?

6. To answer these questions, DWP conducted a call for evidence between 14 June 2022 and 25 July 2022 and asked a range of questions:

   - 6 relating to information, guidance, communications and decision making;
   - 6 relating to the support and products on offer; and
   - 6 covering specific topics including the role of Collective Defined Contribution (CDC) schemes in decumulation, the role of the National Employment Savings Trust (Nest) and Investment Pathways.

7. A total of 59 responses were received. This comprised of 5 directly from employers, 46 from the pensions industry or representative bodies and 8 from individuals or pension scheme member panels. A total of 18 attended the two roundtables hosted by the Pensions and Lifetime Savings Association (PLSA) and DWP.

8. This response only focuses on the feedback received in the call for evidence to the support at point of access through the provision of products and services. The response to the information, guidance and communications elements will follow in due course.

<u>We asked</u>

9. The call for evidence contained 11 questions relating to products, services and post access support;

   Question 8:

[8] FCA Retirement Outcomes Review (2018)

a) What income options or products, if any, does your scheme currently offer members when accessing their pension savings?
b) Do these options or products differ depending on pot size?

Question 9:
If your scheme offers lifestyle strategies or a pathways type solution for decumulation, what take-up have you seen?

Question 10:
If you have already introduced income options or products such as investment pathways, have you received any feedback from members, or conducted research to assess their effectiveness? If so, what conclusions did you reach?

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

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

Question 15
a) How do you envisage the decumulation landscape in the trust-based pensions market developing?
b) Is your scheme planning to make any changes to your decumulation offer in the future?

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?

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

You said:

10. DWP received responses to these questions from a wide variety of respondents. The type of respondents included: pension schemes, representative groups, professional advisors, independent groups, consultants, and administrators. The number of responses to each question varied.

Product offering

11. The responses noted that a wide variety of decumulation products and services are being offered across the market. Several Master Trusts, for example, reported offering a full range of options including flexi-access drawdown, Uncrystallised Funds Pension Lump Sum (UFPLS) and an annuity brokering service. Many respondents however, noted that smaller schemes offered fewer options, allowing members to take their pot as cash being the most likely option whilst some either offered UFPLS or an annuity broker service. It was pointed out that for some of the single employer or smaller schemes their rules prevented them from offering a range of decumulation services. Some schemes have partnered with multi-asset funds to offer drawdown and UFPLS products to their members whilst others have also partnered with insurance companies to offer secured income to their members.

12. The popularity of annuities remained low, and no respondents reported a significant change in this. Approximately 2 in 5 schemes (42%) reported offering a different set of decumulation options depending on pot size, with £10,000 being the most common threshold.

13. Many respondents value flexibility across product types and investment options. Respondents referred to target date funds, default investment arrangements, outcome-focussed products, and individualisation of products. Consistent feedback was that smaller schemes would have difficulty offering a full range of retirement products. Linked to this one response proposed a similar exemption to the FCA's investment pathways exemption be introduced in the trust-based market. This exempts providers with less than 500 non-advised drawdown customers a year from being required to offer pathway investments in connection with the investment pathway rules. Respondents suggested that there is very little appetite by trustees of single trust-based schemes to offer at retirement flexibilities.

14. Several versions of a model that looked at providing short term, medium term and long-term access were suggested by respondents as reflecting the plans of many people. However, some respondents were more cautious as to whether it could be assumed appropriate for all. One respondent suggested the creation of a new product, more sophisticated and structured than investment pathways, which should be considered as a new default. This would aim to manage the main risks consumers face in retirement of outliving capital or spending too slowly and making the most of available assets. A flex first, fix later option, providing greater flexibility in access early in retirement, with funds held back to purchase an annuity at a specified age was also suggested.

Investment pathways and lifestyle strategies

15. Respondents reported a large variety in take-up levels for lifestyle strategies or pathway type solutions across the market. Some respondents were concerned about this while others felt that the low uptake for specific lifestyle strategies and pathways was appropriate for their members.

16. The 4 Investment Pathway Options introduced by the FCA are:

- Option 1: I have no plans to touch my money in the next 5 years.
- Option 2: I plan to use my money to set up a guaranteed income (annuity) within the next 5 years.
- Option 3: I plan to start taking my money as a long-term income within the next 5 years.
- Option 4: I plan to take out all my money within the next 5 years.

17. Some respondents noted that around half of customers are using investment pathways. The most popular pathways were Option 1 and Option 4 with Option 2 being the least popular choice.

18. Many respondents suggested that investment pathways are working well but there could be areas for expanding pathways. Some respondents believe that the current choice selection is too narrow and that there is greater need for engagement and information around the process of investment pathways.

19. Some respondents also noted that pathways do not prevent members drawing too much or too little from their pension and therefore do not offer a solution to variable longevity.

20. As we would expect, schemes that already offer investment pathways noted that it would have no additional impact if they were required to offer them. Other responses varied greatly, often with opposing views. Some respondents said it should not be an issue for commercial Master Trusts, it could spark innovation and consistency across contract and trust-based markets. Whereas others felt it would likely cause substantial work, that smaller schemes should be exempt, that it could restrict the decisions that trustees can take, and it may stifle innovation.

21. Some respondents noted that findings from the FCA review of investment pathways should inform whether there are further areas for improvement.

22. Additionally, some responses suggest that members struggle to engage in choices around investments and often steer towards the status quo where that is an option. For example, members are often automatically invested in a default.

When responses refer to a default option, they often refer to an option where the member has not actively made a choice. However, not all responses defined the conditions of the default, with some mentioning defaults to specific products whilst others mentioned default lifestyle strategies. The importance of a default investment strategy that doesn't stop at a fixed retirement age was noted along with the potential for CDCs to become the default in the future. However, it was recognised that there is unlikely to be a default option that is appropriate for all members.

Expected developments:

23. There was a wide range of expected developments in the trust-based decumulation market. Several respondents expected further partnering between Master Trusts and single employer schemes to offer drawdown. There were limited responses in relation to how partnering currently works. One respondent said that their trust-based schemes are currently considering how to best partner with a Master Trust, the options being considered included signposting and bulk transfer of assets from an appropriate age in the accumulation phase. One respondent also mentioned that partnering may allow members to benefit from the negotiating power of the transferring scheme as well as the continued oversight of the relationship by their scheme trustees and the trustees of the Master Trust. This respondent also said that offering an attractive proposition at a competitive price and integrating member communications to enable a smooth transition from one trust to another was essential.

24. Some respondents saw further consolidation of pension schemes as likely, and some viewed this as a trend worth encouraging. One respondent identified possible risks in member driven consolidation. For example, short-termism for providers and/or schemes who may aim to appear the best value by focusing on short rather than long-term returns and as low costs to attract consumers, which may be at the expense of increased diversification. Some respondents recognised the limitations of some scheme rules to offer in scheme decumulation options.

25. Several respondents felt that CDC schemes would play an important role in the future of the decumulation market, by providing a regular income in later life. There was a general desire for regulation to be aligned with the FCA requirements where possible. Many respondents emphasised that flexibility should remain an important consideration for future pension offerings.

26. Many noted that, in principle, mirroring investment pathway arrangements would be beneficial for members in the trust-based market as they are broadly working as intended. Some respondents however do not see them as a suitable framework for decumulation in occupational pensions as they felt they are too

narrow by only allowing the pot to have one function at a time. There may be some misunderstanding about pathways as firms are not prevented from allowing consumers to split investments across different pots.

Further support and post-access guidance

27. In the call for evidence, it appeared that some schemes did not offer post-access support. Respondents noted this was a key point that needed development as again this support seemed to vary a lot between schemes. We will consider this as part of our proposals on information, guidance, and communications that will be set out later this year.

Summary of external evidence

28. We know a large proportion of people would like to receive an income in retirement from their pension, with around 2-in-5 stating they plan to take an annuity (and this is even higher for those with no clear plans for accessing). However, very few people, around 10%, currently buy an annuity. Members are also dependent on their provider to offer decumulation products or having to shop around for the best deal; around one-third of drawdown/annuities being bought from a new provider. With a number of studies pointing towards CDCs boosting retirement incomes by 30% or more, CDCs may offer a more appropriate savings vehicle for pension savers. For reference, half (50%) of people entering drawdown used the investment pathways [9]in the first quarter of 2023.

29. In October 2022, Corporate Advisor published a Workplace Pensions into Retirement Report[10] which surveyed over 20 Master Trusts, group personal pensions (GPP) and group Self Invested Personal Pensions (SIPP) providers. The report found that two providers did not offer partial withdrawals from the age of 55, three providers did not allow flexi-access drawdown, all providers allowed full UFPLS but three did not offer partial UFPLS withdrawals. This report also found that a substantial group of providers did not offer drip-feed drawdown – the ability to withdraw tax-free cash and taxable income in ratio’s other than 25%/75%.

30. The Pensions Regulator (TPR) publish data in their DC Scheme Return[11] on the decisions made by members of trust-based schemes with 12 or more members. This data shows that there is a growing number of retired scheme leavers. These scheme leavers do not transfer out their pension and so it is likely, but not definite, that they are members taking full cash withdrawals. The number of

[9] How will future pensioners use guaranteed income products, PPI (2022)
[10] Workplace Pensions Into Retirement Report 2022 (zohopublic.eu)
[11] DC trust: scheme return data 2022 to 2023 | The Pensions Regulator

retired scheme leavers has increased on average 25% each year from 95,000 in 2019 to 187,000 in 2022. In 2022, DC pots withdrawn at retirement had an average value of £5,000. As the data is gathered at a scheme level, we are unable to observe individual level decisions and although the average value per pot is relatively low this may be one of several pots that a member has. Alternatively, this could be driven by options available to the member being limited if the pot is not of a specific value.

31. In addition, TPR also publish data in their DC scheme return[12] on the number of individuals that decide to leave their current trust-based scheme each year. This data also only includes schemes with 12 or more members and shows that the number of transfers out have increased on average by 58% each year from 86,000 in 2019 to 340,000 in 2022. The average value of a transfer out in 2022 was £12,000. We do not know the purpose of these transfers and whether it relates to their current trust-scheme not offering certain decumulation products. We do however know that 99% of transfers out and retired scheme leavers come from members transferring out of the largest schemes (5000+ memberships), where the product offering is greater than smaller schemes.

32. HMRC Real Time Information (RTI) data on pensions in payment published alongside this consultation[13] shows that many individuals may be using their pension before their State Pension age, to support their retirement transitions or to support them with shorter term goals. PPLL found that when accessing their DC pension, 67% chose to take a cash lump sum. For some, this money was used to cover living costs (38%), pay off debt (31%) or a one-off purchase (21%)[14].

33. HMRC RTI data also suggests that flexible payments from DC pensions may be providing individuals with the opportunity to transition out of work or help retain people in the labour market, for example through working part time[15]. PPLL found that 23% of those aged 55+ who accessed a DC pension were still doing some paid work[16].

34. Furthermore, FCA Retirement Income Market data[17] shows that in 2021/22, 71% of contract-based DC pots where partial withdrawals were being made, were being withdrawn at an annual rate of 4% or higher and 40% were withdrawn at a rate of 8% or higher. We do not know the wider financial circumstances that

[12] DC trust: scheme return data 2022 to 2023 | The Pensions Regulator
[13] Stopping Saving and Pensions in Payment Statistics, DWP (2023) – See Annex A for a summary of the data.
[14] Planning and Preparing for Later Life - GOV.UK (www.gov.uk)
[15] Stopping Saving and Pensions in Payment Statistics, DWP (2023) – See Annex A for a summary of the data.
[16] Planning and Preparing for Later Life - GOV.UK (www.gov.uk)
[17] Retirement income market data 2021/22 | FCA

these pots were accessed under, but it could suggest that some pots may be in drawdown at a rate which may be considered unsustainable.

Chapter 2: What we propose

35. We agree with the overriding view of most respondents that an individual should expect to receive a level of help and support from their pension scheme when they wish to access their pension savings. We also, however, acknowledge that individuals have the ability to choose how they want to use their pension pot. Our proposals therefore look to offer a level of support for those who find the decisions they need to make at the point of access daunting and help trustees provide members with default options for those who are less engaged.

36. There are a number of ways that schemes currently support their members to make the most of their pension pots:

- Directly offering a suite of products and services;
- Partnering with other organisations to offer a similar range of products and services;
- Organising advice sessions; and
- Signposting to appropriate guidance services.

37. This unfortunately, is not universal. Our aim, through the proposals presented in this consultation, is to establish a broad alignment in the service offer among different providers where every pension scheme, either directly or through a partnering arrangement, provide decumulation solutions for their members. We are however not looking for precise consistency across schemes as we recognise and believe schemes should adapt the offer based on their membership.

38. The intention is to place a duty on trustees to offer decumulation services, which are suitable for their members and consistent with pension freedoms. Trustees must establish a service offering that meets the generality of their members. At decumulation members will have the option to either choose this default service offered by the scheme or access the products and services available under the pension freedoms if they choose to opt for these instead.

39. As part of these duties, trustees would either need to offer these services in-house, or partner with another supplier who could provide these services.

40. We know a large proportion of people would like to receive an income in retirement from their pension, with around 2-in-5 stating they plan to take an annuity (and this is even higher for those with no clear plans for accessing). However, very few people, around 10%, currently buy an annuity. Members are also dependent on their provider to offer decumulation products or having to shop around for the best deal; around one-third of drawdown/annuities being bought

from a new provider. CDCs may offer a more appropriate savings vehicle for pension savers.

41. FCA's Financial Lives Survey (2022) found that over half (56%) of adults aged 50+ who had at least one DC pension they had accessed in the last 4 years, did not compare two or more providers by looking at the products, prices or the terms and conditions offered before taking some cash out of their pension and leaving the remainder invested. Of those that had taken some cash out and left the remainder invested with the same provider they saved for their pension with, 68% said this was because it was 'not worth it' to choose another provider or they didn't know they could, didn't think about it, or were happy with their existing provider. Of those that did use another provider, 53% were recommended to from a financial advisor. However, we know that the use of financial advice is low with only 27% of all individuals who had accessed a DC pension in the last 4 years having used regulated advice in the last 12 months.

42. We accept that an in-house offer of products and services may not be the optimal outcome for every member. However, we believe the work we are exploring on communications, which we will set out later this year, and the potential for pensions in decumulation to be included in the Value for Money framework in the future, will enable savers to better understand the value to them of different services and products available in the decumulation market. While the framework data is for providers to assess and improve the VFM that they offer, savers will be able to compare VFM assessments.

43. We recognise that the DC decumulation market is still developing and evolving, with several pension schemes continuing to invest time and effort into developing solutions they believe will provide their members with the best outcomes. We do not want to prevent this innovation in the market from continuing.

44. Our view is that in the case of decumulation the pension scheme must provide a solution, or set of solutions, that aims to deliver what the member wants to achieve from their later life income. This will ensure every member of an occupational pension scheme has access to a decumulation solution should they not want to make the often complex decisions, such as investment strategies or levels of sustainable drawdown, when accessing, whilst retaining the freedom to use their pension pot as they wish.

Question 1 – Should it be up to trustees to determine the other suitable suites of products?

45. Recognising personal circumstances and our continued support for an open market mean that member choice remains an important element we do not propose to require specific products and services. However, we also know many

members of occupational schemes want a regular income from their pension assets. We are therefore encouraging inclusion of access to a CDC within the framework and want to create a CDC decumulation market that supports this approach. Although regular income could be delivered through Flexible Access Drawdown, this would not address the evidence that some are unaware of what is a sustainable rate of drawdown. Drawdown also leaves the individual solely susceptible to market volatility. For some members CDC could address both these issues by removing the onus on the member to determine how quickly they withdraw to ensure sustainability. Also, the pooling of funds across the scheme reduces the personal impact of market volatility on the member. Although insured annuities also address these issues because the income is guaranteed and not variable, they are more costly than decumulation only CDC is expected to be.

46. Our intention is to set a framework, through the broad duties on trustees. We would however want schemes to consider how CDCs could feature in their offer to members. Until the point where we will introduce legislation, we would encourage occupational schemes to adopt this approach to ensure their members get the help and support they want and need.

47. We are content if the range of services are wrapped up within one overall package, for example PLSA suggest, in their DC Decumulation: Evolving the Pension Freedoms – Final Recommendations report, that products and services should provide:

- Access to cash and/or flexibility;
- Sustainable income;
- Secure income in later life.

48. The evidence from the June 2022 ‘pension choices call for evidence’ and the January 2023 CDC consultation showed there is a strong view CDC should play a role in the market.

Question 2 – What can government do to help a CDC-in-decumulation market emerge?

49. The balance we are trying to achieve through this proposed approach is to continue to adhere to the ethos of freedom and choice, whilst enabling individuals to shop around for the products and services that best meet their needs. This will provide a backstop of services for those less comfortable with shopping around.

Question 3 – We would welcome views to understand what are the minimum requirements that trustees should put in place for members facing decumulation?

Question 4 – What factors should a trustee / scheme take into account when developing their decumulation offer?

50. The FCA developed investment pathways to address specific harms identified in the ROR[18]: low levels of consumer awareness and engagement, and consumers being invested in a way that does not align with their objectives. It also saw the choice architecture presented by investment pathways as a means of helping consumers engage with their investment decision and align their drawdown investment with their retirement objectives in advance of retirement. We similarly wish to help savers and expand upon this to support occupational pension members with a range of options when accessing their pension wealth.

51. The FCA published its post-implementation review of investment pathways on 11 July 2023, including an overview of workstreams to enable further support for consumers throughout their retirement journey. This includes the advice / guidance boundary review, which will inform the FCA's approach in this area.

52. As part of the framework approach described above, we would encourage schemes to develop the products and services they offer and guide their members towards them to be based on the following questions:

- Do you only want a regular income?
- Do you only want flexible access to your pension benefits?
- Do you want a combination of both?
- Do you want to do something else?

Question 5 – We would welcome views to understand if these are the right questions to capture the majority of ways an individual will want to use their pension wealth?

Question 6 – Are there any other questions we should include in the framework?

Question 7 – We welcome views on whether you see any issues with this approach and whether there are potentially any implications due to the advice/guidance boundary.

53. There was also feedback that requirements across schemes regulated by the FCA and TPR should be aligned. DWP, FCA and TPR strongly agree on the need for alignment, where appropriate. Our proposals demonstrate our commitment to ensuring members receive sufficient support, regardless of

[18] FCA Retirement Outcomes Review, 2018

scheme type, while bearing in mind their individual needs and respecting the different legal frameworks within which the FCA and TPR operate.

54. The FCA's approach in this area will be informed by the advice/guidance boundary review they are undertaking with HMT. However, the advice/guidance boundary is a key consideration in respect of all schemes, whether they are regulated by FCA or TPR, in terms of how schemes support their members when they are deciding how to access their pension savings. We will work with HMT and FCA to understand how their review may affect the occupational pension space in this area, with the objective of ensuring alignment between the sectors, where appropriate.

55. We want all pension savers to receive value for their money. That is why, working alongside TPR and the FCA, we have set out our plans to bring forward a holistic framework for the assessment of VFM in DC schemes.

56. This will require schemes to publicly disclose a standardised suite of metrics across the essential components of value (investment performance, cost and charges and quality of service) using these disclosures to inform a holistic assessment of VFM. This will help good schemes get better and require poorly performing schemes to exit the market if they cannot show they will deliver VFM for their savers.

57. The first phase of the VFM framework focuses on delivering the best possible value and outcomes for savers in default arrangements in accumulation. Our VFM consultation response also sets out our ambition for later phases of the VFM project which include ensuring that schemes deliver the best possible value for money and outcomes for savers in decumulation.

58. We are focusing on metrics which deliver good saver outcomes and some metrics proposed in the VFM framework may easily extend to decumulation, but there will need to be consideration of additional disclosures which capture the specific and important needs and experience of savers as they turn towards and when in decumulation.

Question 8 - Do you have any suggestions for key metrics or areas that would need to be included if the proposed value for money framework was extended to decumulation or suggestions for where proposed metrics may no longer be required?

Question 9 - Do you have safeguards in place for members in the decumulation stage? If so, what are these safeguards and what information do you provide to members?

Question 10 - Do you use the same charge structure as you do in the accumulation stage?

59. Respondents to the call for evidence pointed out that small and single employer schemes are likely to be unable to provide decumulation services and may force further consolidation in the market.

60. Our overarching objective for this policy is to try and provide a level of fairness and good outcomes for members of occupational pension schemes. We fully understand the issue that some small schemes may have in delivering this framework, which is why we are consulting on the ability for schemes to partner with others. However, we are also comfortable, where it's in the members interests, if the introduction of the framework results in a market where there are fewer but larger schemes with lower per member costs, resulting in a wider range of productive assets. We welcome views and input into when it would be acceptable for a scheme to partner and not offer the services themselves.

61. We understand there are different approaches to the concept of partnering already being adopted by some pension schemes. As previously mentioned, throughout this consultation our overarching aim is to provide members of occupational schemes with the ability to make informed choices about optimising their later life income and see their pension scheme as a key-way of achieving this. We therefore do not intend to be prescriptive about how partnering relationships should be developed.

62. Some examples of the approaches to partnering we received in the feedback are below:

<u>Example 1 –</u>

63. Current pension scheme sets up a contractual arrangement with Provider B to purchase a single or range of products on behalf of their members. The member then has access to decumulation services without having to transfer out of their current scheme to access them and they retain their existing relationship with their current pension scheme.

<u>Example 2 –</u>

64. Current pension scheme sets up a contractual arrangement with Provider B to provide certain elements of the decumulation services offered to their members. This model ensures the member gets the choice of a wide range of products, including those that their current scheme is unable to offer, without the need to transfer.

Example 3 –

65. Current pension scheme negotiates costs and charges on behalf of their members with a specified post-retirement Master Trust where members can access drawdown facilities, based on an existing relationship, and then signposts to this provider at point of access. This secures a choice architecture for the member, but with the benefit of the scale of the current scheme being able to secure lower charges.

Question 11 – We would welcome views to understand what are the practical considerations of partnering arrangements?

Question 12 – Should government set out a minimum standard partnering arrangement?

Question 13 –

a) **Should all schemes be allowed to establish partnership arrangements or only schemes of a certain size?**
b) **If only a certain size what should that be?**

Question 14 - Is there a role for a centralised scheme to deliver decumulation options, where trustees are unwilling or unable to offer these directly?

Chapter 3: Implementation

66. In the previous chapter we have indicated how we believe these policies would be implemented.

67. Our intention is to introduce duties on trustees to consider the needs of their members when they want to access their pension pot and develop ways to deliver those needs.

68. Although we intend to legislate, when parliamentary time allows, we see value in individuals being offered the type of support outlined in Chapter 2 sooner rather than later. That is why we intend to work with TPR to issue guidance to show how the objectives of these policies can be met without legislation being in place.

Legislative Approach - Introduce a broad duty on trustees to provide decumulation services for their members

Non-Legislative Approach - Guidance from TPR, supported by messaging from DWP and TPR about the need to offer decumulation products supported

Question 15 – We would welcome views on if there is an alternative to our approach for legislation that would achieve the same results?

Question 16 – We want to work with industry during the implementation of these proposals; what timeline should we work to implement these changes?

Question 17 – When we introduce legislation should this only apply to Master Trusts in the first instance?

Chapter 4: Role of Nest in Decumulation

69. As part of the call for evidence, we sought views on whether restrictions on Nest should be eased to enable them to offer a full range of decumulation products to their members.

We asked

> **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?**

You said:

70. Of the 59 responses received from the call for evidence, 38 responded to this question. Generally, the responses are supportive of Nest offering decumulation products to their members. These are captured under the headings below but there were some caveats:

    - **Nest should be able to offer a drawdown option for its members –** there was general consensus this should be allowed primarily to ensure fair treatment and equality with members in other schemes. However, Nest members should not be placed at an advantage or disadvantage with members in other schemes. Some consumer/member bodies and employers questioned whether Nest should be able to offer the full range of decumulation products offered in the industry.

71. Some employers who use Nest stated that their employees believe that Nest is currently not a pension provider. A concern was raised about the impact of whole of life solutions on members shopping around ('consumer risk'). Far fewer in the industry would support members being able to transfer into Nest to access their decumulation products. Some respondents shared the view that Nest should not be able to provide drawdown or income solutions for non-Nest members or to partner with other schemes to provide decumulation solutions. However, there was also the view that Nest is likely to achieve greater value by partnering with third parties who have specialist expertise and experience of engaging with schemes and scheme members.

- **Nest is funded through a government loan and has an unfair commercial advantage over other scheme providers -** some industry providers agreed Nest should offer decumulation products, but with the proviso that it operated on the same commercial footing as other industry providers. These products should be limited to Nest's members. Some concerns were raised around costs and charges applied to products and Nest having a commercial advantage. These respondents felt the Nest offer to its members should be no more favourable than those offers generally available in the industry.

- **There should be clear, cost effective, concise information and guidance to members –** in some of the responses concerns were raised about the requirement for high-quality support being available to Nest members to help them understand the options available to them if drawdown was offered. Other providers/industry believed Nest members should be able to shop around for the best products and should not have restrictions in terms of consumer choice. This is a common concern across the industry. Scheme members tend not to engage with their pensions until the decumulation stage and are usually not well informed to make decisions about their pensions. It was acknowledged that a large proportion of Nest's members are employed by small and micro business. These employers are unlikely to have an in-house capability and capacity to provide detailed support to their employees, leaving the employees reliant on expensive financial advice that they would be reluctant to access.

- **There is no evidence of market failure–** where respondents were not supportive of Nest offering additional decumulation products, the most common reason given was that there is no evidence of market failure. One Master Trust questioned the justification of Nest being supported by a government loan at a preferential rate which could be used, should it wish to fund the development of a new product. Two possible solutions were put forward:

    - Nest could white label a decumulation product which could be produced by another provider.
    - Nest could develop their own product and look at ways to self-fund it e.g., via a loan at a commercial rate.

We Propose:

72. Nest is the largest AE provider and DC Master Trust scheme. Our view is that the duties proposed in Chapter 2 of this consultation should equally apply to the Nest trustee. This may require an amendment to the existing Nest Order or, subjecting Nest to new statutory duties allowing it to offer the full range of pensions

freedoms. We believe this approach will ensure parity of treatment for scheme members, irrespective of whether they hold one or more DC pots in Nest. In addition, we will consider if any constraints should be applied to ensure Nest's offer remains appropriately focussed on the Automatic Enrolment target population.

73. Feedback from our call for evidence suggests that the pensions industry is generally supportive of this approach provided it is financed without additional subsidy, the services are made available to Nest members and what is on offer complements the market. We will consider this further in the context of establishing a CDC in decumulation market, and if interventions are necessary to help stimulate this, while maintaining a competitive marketplace.

74. Nest was set up by statute and operates under both an Order, which is approved by Parliament, and Rules. We will need to consider any additional legislative implications allowing the Nest trustees to deliver these duties. This may require an amendment to the existing Nest Order or, subjecting Nest to new statutory duties. In addition, we will consider if any constraints should be applied to ensure Nest's offer remains focussed on its target market and supports competition.

75. In addition to giving Nest members the same opportunities as those in other schemes without the need for them to transfer out, this approach would also mean Nest member funds could be invested in growth assets, improving opportunity for investment in productive finance.

Question 18 – Do you have views and evidence on how this can be delivered in ways that achieve our policy aims of stimulating CDC in decumulation, enabling Nest to provide the services outlined in this consultation, while ensuring a healthy competitive marketplace?

Chapter 5: Impacts

76. The purpose of this chapter is to gather evidence to assess the impacts and better understand the additional costs and benefits associated with potential future policy changes to help savers understand their pension choices. Developing the evidence base will enable us to design policies that maximise benefits and minimise costs.

Baseline

77. We recognise many schemes already provide a wide range of products and services and have regular engagement with members throughout their journey. We would welcome your input on existing business practices to inform our baseline. Your response should focus on products or communications which are not already set out in legislation.

	Offer (Yes/No)	No, do you partner with an external scheme or third party?	Plan to develop
Products and services			
Annuity			
Flexi-access Drawdown			
Uncrystalised Fund Pension Lump Sum			
Decumulation-only CDC's			
Other product or service (please specify- add line for additional products)			
Communications			
'Wake-up' packs (as set out in rules by the FCA)			
Other age-related communications in accumulation			
Post access communications			

Summary of costs and benefits

Costs

78. We are keen to balance the costs and benefits on industry and therefore want to understand the additional changes schemes will need to make and the anticipated costs, which we will break down into one-off and on-going over the appraisal period. The following cost components have been outlined based on the proposed changes and expectations. These costs components will form the basis of our assessment but are likely to be developed following the responses to the consultation. The costs will apply to schemes who do not already meet the requirements.

- Developing and offering a range of decumulation services which meet the policy framework.
- Partnering with other schemes to provide members access to a range of decumulation services which meet the policy framework.

Question 19- Are you able to quantify any of the one-off or on-going costs at this stage?

Question 20 - Are you able to provide a breakeven point in pot size for providing certain decumulation products or services? Would this be different for decumulation only CDC's?

Benefits

79. We recognise that the benefits of the proposed policy changes are aimed at member outcomes which are difficult to quantify. The evidence base shows there are a wide range of preferences and individual circumstances which means outcomes can and will differ. However, the proposed changes will create a minimum offering to all members.

80. The proposed product and services framework should also enable members to receive a later life income through a product that best meets their needs. It should also mean that members do not need to transfer out of their scheme to access their pension in a certain way, unless they choose to, which may remove transfer costs they may otherwise face.

81. There may be some quantifiable benefits to members who no longer need to transfer their pension at the point they access. There may also be some quantifiable benefits for members who's pension pot remains invested through a decumulation product or service rather than being withdrawn as a lump sum or being held in very liquid (and low return) assets. The FCA estimated in 2018 that consumers investing in cash (including direct holdings in cash and holdings in cash-like assets such as money market funds or short-dated maturities) and drawing down their pot over a 20-year period, could increase their expected annual income by 37% by instead investing in a mix of assets[19]. The FCA did

[19] MS16/1.3: Retirement Outcomes Review Final report (fca.org.uk)

note that the actual amount of income available will depend on a customer's personal circumstances and rates of return can vary.

82. Additionally, increasing consistency across the contract and trust-based markets may result in an administrative cost saving for schemes who operate across both markets.

Question 21 – What benefits do you expect there to be from the proposals members/schemes/wider)? Do you think they are quantifiable?

Question 22 – Do you think the benefits from the proposed changes outweigh the costs?

Chapter 6: Conclusion

83. The consistent feedback we received to the call for evidence was that there was a need to act in order to:

    - Encourage members of most occupational pension schemes to become more engaged with their workplace pensions;
    - Support members to make informed choices about how to optimise their later life income; and
    - Ensure that decisions made at the point of access remain the ones that individuals want to continue with.

84. There was also consistency in the feedback to closer align between FCA and TPR requirements.

85. Through this consultation and the policy proposals set out in it, we seek to address this feedback.

86. By placing responsibilities on schemes and trustees to offer decumulation solutions to each of their members we believe this will give individuals access to a range of options to help them optimise their pension savings for later life income.

Annex A: Latest trends in private pensions in payment

Alongside this consultation we have published statistics which provide an overview of the trends in private pensions in payment in the UK. The data is collected through Pay As You Earn (PAYE) receipts and processed through HMRC Real Time Information (RTI). Reporting was not mandatory in 2015/16, therefore numbers for 2015/16 may be underreported. HMRC have previously published a subset of this data which can be found here: Private pension statistics - GOV.UK (www.gov.uk)[20]

The data provides new insights in to how the private pension landscape during later life is changing. The full data can be found in the accompanying spreadsheet[21] along with the methodology notes and caveats. A summary of the findings from the data can be found below.

The number of individuals receiving private pension payments by product type

Since 2015/16, the total number of individuals receiving a private pension payment has increased by 3% from 12m to 12.4m in 2021/22. Over the same period, the number of individuals receiving payments from a Defined Benefit (DB), or annuity has decreased by 1% to 11.7m. Individuals receiving payments from only DB and annuity products currently make up the bulk of the stock of all individuals, accounting for 90% in 2021/22; though this has decreased from 96% in 2015/16.

The number of individuals receiving payments from both DB or annuity products and at least one lump sum and other DC product has doubled from 300,000 in 2015/16 to 600,000 in 2021/22. These individuals account for 5% of individuals receiving private pension payments.

The number of individuals receiving only payments from lump sums and other DC products continues to grow over time. We have seen an increase of 250% from 200,000 in 2015/16 to 700,000 in 2021/22 and individuals receiving payments from only these products now account for 6% of individuals receiving private pension payments – we expect this trend to continue.

The number of individuals receiving private pension payments for the first time since 2016/17

[20] This publication includes data on taxable flexibly accessed pension payments which can be found in Table 9. More information about how this data relates to the data we have published can be found in the accompanying spreadsheet.

[21] Stopping Saving and Pensions in Payment Statistics, DWP (2023)

The RTI data also identifies whether a private pension payment is an individual's first payment since 2016/17.

In 2021/22, 670,000 individuals received their first payment. Since the start of the data (2016/17) the number of individuals receiving their first payment has fluctuated and has likely been impacted by the Covid-19 pandemic. In 2021/22 most individuals (69%) received their first payment between the ages of 55 to 64, prior to the current State Pension age.

The proportion of individuals that receive their first payment from a DB pension or annuity has gradually declined from 62% in 2016/17 to 51% in 2021/22. The proportion of individuals that receive their first payment through a Lump Sum or other DC product has increased from 38% to 49%. This shows that there is a growing trend towards individuals using Lump Sum or other DC products rather than products that provide a guaranteed income. This is supported by other data sources which show a reduction in the number of members in DB pension schemes[22] and a reduction in demand for annuities since pension freedoms[23].

The FCA retirement income market data provides more insight into the products which individuals are accessing with DC pots[24]. In 2021/22 706,000 pots were accessed in the contract-based market, 56% of pots were fully encashed, 29% entered drawdown, 10% were used to purchase an annuity and 5% of pots were accessed by taking an UFPLS payment thus showing a strong desire to access DC pensions flexibly.

The number of individuals receiving private pension and employment payments

The RTI data can identify both employment and private pension payments. However, only where the employment is through PAYE. Therefore, this count does not include any individuals who receive their income through self-employment.

In 2021/22 around 2.5m individuals received a private pension and employment payment in the same year. Most (60%) were between the ages of 55-64 with 20% being aged 65-69. This is a substantial number of individuals and shows that private pension access does not mean retirement for many. Internal analysis shows that approximately 1.1m individuals' receive employment and pension payments in the same month. For many individuals, flexibility in pension access may therefore be an important aspect in keeping people attached to the labour market.

[22] The Purple Book 2022 (ppf.co.uk)
[23] Industry Data | ABI
[24] Retirement income market data 2021/22 | FCA

Annex B: Summary of consultation questions

Question 1 – Should it be up to trustees to determine the other suitable suites of products?

Question 2 – What can government do to help a CDC-in-decumulation market emerge?

Question 3 – We would welcome views to understand what are the minimum requirements that trustees should put in place for members facing decumulation?

Question 4 – What factors should a trustee / scheme take into account when developing their decumulation offer?

Question 5 – We would welcome views to understand if these are the right questions to capture the majority of ways an individual will want to use their pension wealth?

Question 6 – Are there any other questions we should include in the framework?

Question 7 – We welcome views on whether you see any issues with this approach and whether there are potentially any implications due to the advice/guidance boundary.

Question 8 - Do you have any suggestions for key metrics or areas that would need to be included if the proposed value for money framework was extended to decumulation or suggestions for where proposed metrics may no longer be required?

Question 9 - Do you have safeguards in place for members in the decumulation stage? If so, what are these safeguards and what information do you provide to members?

Question 10 - Do you use the same charge structure as you do in the accumulation stage?

Question 11 – We would welcome views to understand what are the practical considerations of partnering arrangements?

Question 12 – Should government set out a minimum standard partnering arrangement?

Question 13 –

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

Question 14 - Is there a role for a centralised scheme to deliver decumulation options, where trustees are unwilling or unable to offer these directly?

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Question 18 – Do you have views and evidence on how this can be delivered in ways that achieve our policy aims of stimulating CDC in decumulation, enabling Nest to provide the services outlined in this consultation, while ensuring a healthy competitive marketplace?

Question 19 - Are you able to quantify any of the one-off or on-going costs at this stage?

Question 20 - Are you able to provide a breakeven point in pot size for providing certain decumulation products or services? Would this be different for decumulation only CDC's?

Question 21 - What benefits do you expect there to be from the proposals members/schemes/wider)? Do you think they are quantifiable?

Question 22 – Do you think the benefits from the proposed changes outweigh the costs?