



Department  
for Work &  
Pensions

# Stronger Nudge to Pensions Guidance

Statement of Policy Intent

---

October 2020

# Contents

<b>Foreword by the Minister for Pensions and Financial Inclusion</b> .....	3
<b>Executive Summary</b> .....	4
<b>Introduction</b> .....	4
<b>Our analysis and the case for change</b> .....	4
<b>Scope of Policy</b> .....	5
<b>Next Steps for action</b> .....	5
<b>Equality Act</b> .....	6
<b>The case for change</b> .....	6
<b>Background</b> .....	6
<b>Financial Guidance and Claims Act</b> .....	7
<b>Our evidence and analysis - Key findings</b> .....	8
<b>What do we want to achieve?</b> .....	9
<b>Our Proposals</b> .....	9
<b>We intend to implement the nudge that was tested, across all channels</b> .....	10
<b>Proof of having received guidance can be self-reported</b> .....	10
<b>Opting out should not be onerous</b> .....	11
<b>The opt out should be recorded by trustees and managers, not MaPS</b> .....	11
<b>‘Appropriate pensions guidance’ should be provided by MaPS</b> .....	11
<b>Conclusion</b> .....	12
<b>Next steps for action</b> .....	12

## **Foreword by the Minister for Pensions and Financial Inclusion**

Pensions are one of the most important long-term investments than an individual will make. I am committed to ensuring that when preparing for retirement savers are encouraged to access appropriate pensions guidance. The free and impartial guidance provided by Pension Wise will help them make informed choices about their financial futures.

I want taking pensions guidance to become a natural part of the journey individuals embark on when making decisions about their pension savings. I welcome the encouraging results from the Stronger Nudge trials that demonstrated ‘nudging’ people to take guidance significantly increased the take-up of Pension Wise guidance.

Building on the results of those trials, this policy statement sets out our approach to encourage take-up of pensions guidance. We will introduce new provisions requiring trustees of occupational pension schemes to nudge members to appropriate guidance when they seek to access their pension through the pension freedoms.

The Stronger Nudge provisions are just part of a package of important measures designed to help people make informed decisions about accessing their pension savings. These measures will help protect consumers from scams and encourage use of the free, impartial guidance that is available to help them make informed decisions about the options available to them.

# Executive Summary

## Introduction

The Pension Flexibility measures (sometimes referred to as Pension Freedoms), which apply to occupational and personal pensions, mean that people can access their pension benefits (generally defined contribution benefits) from age 55 and have a range of options for accessing their savings.

As part of the changes, guidance that was initially delivered by Government under the brand ‘Pension Wise’<sup>1</sup> was launched. The service, which was transferred to the Money and Pensions Service (MaPS)<sup>2</sup> at the beginning of 2019, provides free, impartial guidance to help individuals, aged 50 or over, with a defined contribution pension, understand the options available to them. Pension Wise is funded through the General Pensions levy.

During the passage of the Financial Guidance and Claims Act 2018, there was debate around the take up of guidance and how to promote it in the most effective way.

The Government made a commitment to test a “nudge” to pension guidance to inform implementation of sections 18 and 19 of the 2018 Act (referred to here as “the Stronger Nudge legislation”).

Once Section 19 is commenced, the Secretary of State for Work and Pensions will have a duty to make regulations to implement section 19 of the Financial Guidance and Claims Act 2018<sup>3</sup>, which covers occupational pensions. The Financial Conduct Authority will have a duty to make rules to implement section 18 of the Act covering contract-based pensions, once Section 18 is commenced, and will follow a separate legislative process. This document therefore sets out the government’s policy intent for occupational pensions.

Section 19 will place a duty on trustees and managers when dealing with applications to access pension savings using Pensions Flexibilities, to refer the applicant to appropriate pensions guidance and explain the nature of that guidance. They are not to proceed with the application until they have ensured that the relevant beneficiary has received appropriate guidance or has opted out of receiving guidance.

## Our analysis and the case for change

---

<sup>1</sup> Guidance around options for citizens accessing pensions savings through Pensions Flexibility Measures, provided by the Money and Pensions Service, will be referred to as ‘Pension Wise’ throughout this document.

<sup>2</sup> The Financial Guidance and Claims Act 2018 section 1(1) established a ‘single financial guidance body’. This body has been subsequently named as ‘The Money and Pensions Service’ in the 2019 Naming and Consequential Amendments Regulations to the 2018 Act.

<sup>3</sup> Referred to as ‘Section 19’ in this document.

Feedback from users on the Pension Wise guidance service has been very positive, as can be seen in the most recent Pension Wise evaluation<sup>4</sup>, so there is a strong appetite to increase take up of the service to help individuals make an informed choice about their retirement income. Demand for the Pension Wise service has grown year on year since it launched in 2015. MaPS delivered 205,642 Pension Wise transactions in 2019/20, including telephone appointments, face to face appointments and online sessions, which is more than triple the number delivered in the first year of operation.

The Money and Pension Service appointed the Behavioural Insights Team to help develop a behavioural nudge, and test two versions of it. These were:

- The trial providers explained the nature and purpose of the guidance and then offered to book an appointment for the individual.
- The trial providers explained the nature and purpose of the guidance and then transferred the individual to MaPS who booked the appointment.

The key components of the Stronger Nudge were to give greater prominence to the availability of Pension Wise guidance by offering it as a normal part of the pension access journey and making it easier for pension holders to book a Pension Wise appointment.

Both versions of the nudge were successful at increasing the proportion of pension holders booking and attending a Pension Wise appointment compared to business as usual<sup>5</sup>.

## Scope of Policy

The legislation applies to England, Wales and Scotland. Pensions are devolved to Northern Ireland but it is anticipated that the Department of Communities will bring in parallel provision using the provisions in section 19(6) to (9).

## Next Steps for action

The Stronger Nudge trials showed that the nudge is effective, therefore we will commence Section 19 and make the appropriate regulations using the powers inserted by section 19.

We will work with the Financial Conduct Authority (FCA), The Pensions Regulator (TPR), and MaPS, and will engage with industry on any operational issues, including any cost impacts.

---

<sup>4</sup> *Pension Wise Service Evaluation 2019/20*, Money and Pension Service  
<https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf>

<sup>5</sup> <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf>

We want to ensure that the policy can be delivered in an effective and efficient way and therefore will be consulting on the draft regulations.

A regulatory impact assessment will be made to assess the costs to industry of implementing the Stronger Nudge.

## **Equality Act**

Under the Equality Act 2010, public bodies have a duty to give due regard to the needs of people with 'protected characteristics'. The Equality Duty covers the protected characteristics of:

- Age;
- Disability;
- Gender reassignment;
- Pregnancy and maternity
- Race;
- Religion or belief;
- Sex;
- Sexual orientation; and
- Marriage and civil partnership – in respect of eliminating unlawful discrimination only

Paying 'due regard' means that, in our roles as policy makers, we are required to consciously think about the three aims of the Equality Duty:

- eliminate unlawful direct or indirect discrimination, harassment and victimisation and other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and those who do not share it; and
- foster good relations between people who share a protected characteristic and those who do not share it.

We welcome any further information on the impact of our policy proposals in paying due regard to the needs of people with protected characteristics and how any negative effects may be mitigated

## **The case for change**

### **Background**

Our intention is to help people to make appropriate and informed choices about accessing pension savings through Pension Flexibilities.

## **Financial Guidance and Claims Act**

During the passage of the Financial Guidance and Claims Act 2018, Peers were concerned that Pension Wise guidance, whilst a valuable service, was failing to reach enough people.

Ministers committed in Parliament to testing different approaches for delivering a Stronger Nudge to pensions guidance for members wishing to access pensions flexibilities as required by Sections 18 and 19 of the Act. In this document we will set out how we plan to implement a Stronger Nudge to guidance in occupational pension schemes (section 19).

Under the legislation DWP and FCA have reciprocal responsibilities to pay due regard to the legislation made by the other body. The FCA will introduce rules using the powers in section 18 of the FGCA to implement this for personal pension schemes and stakeholder pension schemes in due course. We are, therefore, working closely with the FCA.

### **Powers to make regulations in the Financial Guidance and Claims Act (2018)**

Section 19 of The Financial Guidance and Claims Act (which inserts a new section 113B in the Pension Schemes Act 1993), once enacted, requires the Secretary of State to make regulations (via the negative resolution procedure) placing duties on trustees and managers of occupational pension schemes to:

- Where a scheme member (or other relevant beneficiary) makes an application to transfer pension rights or start receiving flexible benefits (pension flexibilities), refer them to appropriate pensions guidance, and explain the nature and purpose of the guidance, and
- Before proceeding with an application, ensure the member has either received the guidance or opted out of receiving it.

Section 19 permits regulations to:

- Specify what constitutes 'appropriate pensions guidance' for applicants seeking to exercise pension flexibilities.
- Make further provision about how trustees/managers must comply with their duties
- Specify how and to whom a member must opt out of receiving guidance
- Specify the duties of trustees/managers where a member does not respond to communications concerning whether the member has received or opted out of receiving guidance
- Make exceptions to the duties in specified cases
- Provide for guidance to be issued to which trustees/managers must have regard

Section 19 applies to individuals who are making an application to exercise Pension Flexibilities by receiving benefits or in cases where this may not be possible under the scheme rules, an individual makes an application to transfer their pension to another scheme where it will be possible for them to exercise Pension Flexibilities.

## **Our evidence and analysis - Key findings**

The Stronger Nudge trials, which were completed in February 2020, tested the effect of presenting taking Pension Wise guidance as a normal part of the process, and making it easier to book an appointment, when accessing or transferring pension flexibilities.<sup>6</sup>

MaPS led the delivery of these trials, working with the DWP and the FCA to develop proposals and then tendered for a project partner. The Behavioural Insights Team were appointed to conduct the research.

The two treatments tested were;

- The pension provider offered to book a Pension Wise appointment for the customer.
- The customer was transferred to MaPS who booked a Pension Wise appointment.

In both treatments, the provider first provided an explanation of the nature and purpose of the guidance.

The trials were conducted with three pension providers; Aviva, Legal and General and Hargreaves Lansdown, who all volunteered to participate in the trials. In order to be eligible for the trial, customers had to be aged over 50, an existing customer of the provider, calling in relation to an application to start accessing their pension benefits, have not received either Pension Wise guidance or regulated financial advice within the last 12 months and not declared that they are in serious ill health or in financial crisis.

The impact of the treatments on the take-up of Pension Wise guidance was tested using a three-arm Randomised Controlled Trial (RCT). The trial was conducted over the course of 19 weeks between October 2019 and February 2020, on a sample of 4,135 pension holders. The trials compared the two treatments against the existing signposting to Pension Wise guidance.

Both treatments were successful at increasing the number of pension holders booking and attending a Pension Wise appointment compared to business as usual. There was no evidence of a difference between the two treatments – i.e. pension

---

<sup>6</sup> <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf>



providers booking appointments was as effective as Pension Wise agents booking them.

For both treatments under the trials, approximately 14% of pension holders, who did not report having had guidance before, agreed to book an appointment. This was 11 percentage points more than the control group, where the proportion was 3%. In both treatments around 11% of pension holders attended a Pension Wise appointment, which was 8 percentage points more than in the control group.

More detailed analysis and further evidence regarding the benefit of taking either Pension Wise guidance or regulated financial advice can be found in **Annex A**.

## **What do we want to achieve?**

Pension Flexibilities allow people more options for how they access their pension savings. As part of its pension guidance function, using the Pension Wise brand, MaPS helps people make informed decisions about how to access their pension savings. The nudge to guidance will encourage more people who would benefit from Pension Wise, but otherwise wouldn't have made an appointment, to do so.

It is important to encourage people to take up the offer of pensions guidance where appropriate, without removing the element of personal choice Pension Flexibilities enables. We want to present taking guidance as a natural part of the journey when individuals seek to access, or transfer for the purpose of accessing, their pensions savings.

Some people may want help to understand what the options are and what they would mean for them (so they can decide whether and how to access their pension wealth).

In some cases, people will choose (and be able) to pay for regulated financial advice. The Government has put in place a tax free allowance for advice on pensions to make this affordable/appropriate in more cases<sup>7</sup>. In other cases, regulated financial advice isn't appropriate (e.g. where the cost would be disproportionate to the size of the pension pot).

## **Our Proposals**

Section 19 allows regulations to specify further details about how the legislation will be implemented.

---

<sup>7</sup> The Registered Pension Schemes (Authorised Payments) (Amendment) Regulations 2017

We want to allow trustees and managers flexibility to choose a process that works best for them and their members. However, trustees and managers will be required to take proactive steps to facilitate appointments for their members and to present taking guidance as a natural part of the process of accessing pension savings. We recognise that trustees and managers will also want to work with administrators and their providers in implementing this nudge in the most effective way.

We expect that The Pensions Regulator will provide guidance for trustees and managers to support them to implement this change.

To deliver the Stronger Nudge we will draft regulations based on the following principles. We will consult on these draft regulations prior to their introduction.

### **We intend to implement the nudge that was tested, across all channels**

The design of the nudge that was tested was informed by the Behavioural Insights Team's extensive experience and knowledge of behavioural science. It significantly increased take-up of guidance; We consider the impact sufficient to justify implementing the nudge that was tested.

We plan to make regulations that require the same nudge be applied on all channels, including digital and postal, as far as is practically possible.

Section 19 and associated Regulations, once commenced will require trustees and managers to make customers aware of Pension Wise guidance, and the purpose of it.

To allow regulations to cover all channels, we plan to make regulations that will require trustees and managers to:

- a. Present taking pension guidance as a 'normal' part of the process of transferring/accessing a pension pot
- b. Incorporate booking an appointment into their member engagement process, at the point at which a member indicates they'd like to take guidance.

### **Proof of having received guidance can be self-reported**

We intend to specify in regulations that a member stating they have received the guidance is sufficient evidence to allow a transfer or access of their pension to take place. One of the foundations of the Pension Flexibilities is trusting individuals with their own money and supporting them to make decisions that are right for them. Requiring MaPS to provide formal proof that an individual had received guidance signals that we do not trust individuals to be honest when dealing with their own pensions savings and would likely be disproportionately costly for the benefit provided.

We intend to set out in regulations the requirements for trustees and managers to keep records.

### **Opting out should not be onerous**

The trials showed that a nudge which presents the benefits of guidance and removes barriers - including the member's inertia - to booking an appointment can be effective. Making opting out difficult is therefore unnecessary, and may lead to people who do not want guidance attending a session as the easier option, but not engaging with it.

Given that we do not intend opting out to be onerous, we are not minded to include extensive exemptions in the regulations. One possible exemption would be where individuals had already received Pension Wise guidance or regulated financial advice within a set period of time. We will work closely with the FCA, TPR, and MaPS to develop any required exemptions.

### **The opt out should be recorded by trustees and managers, not MaPS**

As the duty is on the trustees and managers to ensure that the individual has either taken Pension Wise guidance or opted out, the regulations will set out that they will record the opt out. The initial and primary contact point for members will be their own scheme and it is right that they continue to engage with it.

If we were to require a third party to record the opt out, there would need to be a mechanism for transferring this data to trustees and managers, as they have a duty to ensure the member has had guidance or opted out before processing the member's application. This is likely to be costly and would take time to implement.

### **'Appropriate pensions guidance' should be provided by MaPS**

DWP Stronger Nudge provision provides us with powers to define 'appropriate pensions guidance' in regulations. We believe that the success of Pension Wise is in part due to it being seen as impartial and therefore it is right that the Money and Pension Service should be the provider of guidance in this instance.

The pensions guidance can be delivered through a number of different channels, including telephone, face to face and digitally. This will enable individuals to access the guidance via their preferred method of communication.

### **Equality Act**

We will pay due regard to our duties under the Equality Act while further developing all aspects of the policy.

## **Conclusion**

We recognise that decisions about retirement and how to make use of pension savings play a key role in people's lives. We want to encourage people to engage with the guidance that is available to them, to help them make informed decisions about what they want from their retirement and how to use their pension savings.

The stronger nudge will form a key part of our package of measures to increase awareness of the free, impartial pensions guidance available from MaPS.

## **Next steps for action**

We will implement a Stronger Nudge that encourages and promotes guidance as a positive activity.

We will introduce the regulations required to implement the Stronger Nudge. These regulations will provide more detail for trustees or managers of occupational pension schemes concerning their duty to deliver the nudge to pension guidance. The FCA will consult on rules implementing the stronger nudge on contract based pensions in due course. We will continue to work closely with the FCA, TPR, and MaPS as we progress this work.

We want to ensure that the regulations can be delivered in an effective and efficient way and therefore will be consulting on the draft regulations. An impact assessment will be made to assess the costs to industry of implementing the stronger nudge.

## **Annex**

### **Evidence and analysis**

#### **Trial Evaluation Results**

##### ***Evaluation approach including the tested ‘stronger nudge’ interventions:***

The impact of the interventions on take-up of Pension Wise guidance was tested using a three-arm Randomised Controlled Trial (RCT)<sup>i</sup>. The trial was conducted over the course of 19 weeks between October 2019 and February 2020, on a representative sample of 4,135 pension holders. The participants consisted of defined contribution (DC) pension holders who called one of the participating pension providers within the trial period to ask about access to their pension pot(s), and who met the criteria of the research.

The interventions were delivered by call handlers at three pension providers: Aviva, Hargreaves Lansdown and Legal and General (L&G). When pension holders called to access or to inquire about how to access their pension, call handlers either offered to book them a Pension Wise guidance appointment (Treatment 1 – Online booking) or warm-transfer them to Pension Wise who would book appointments for them (Treatment 2 – Warm transfer). These interventions were tested against the business as usual process which typically involved signposting pension holders to the Pension Wise website or appointment booking line.

BIT also carried out an Implementation and Process Evaluation (IPE), consisting of qualitative interviews with 18 pension holders and 5 focus groups with staff of pension providers. This explored how the interventions were delivered in practice and examine delivery staff and pension holder experiences of the intervention.

##### ***Key findings:***

Both interventions were successful at increasing the number of pension holders booking and attending a Pension Wise appointment compared to business as usual. There was no evidence of a difference between the two interventions – i.e. pension providers booking appointments directly was as effective as relying on Pension Wise agents to explain the guidance and make bookings.

##### **Impact on pension holders booking a Pension Wise appointment:**

For both interventions, approximately 14% of pension holders, who did not report having had guidance before, agreed to book an appointment. This was 11 percentage points more than the control group, where the proportion was 3%.

##### **Impact on pension holders attending a Pension Wise appointment:**

In both intervention groups around 11% of pension holders attended a Pension Wise appointment, which was 8 percentage points more than in the control group.

Amongst those who booked appointments, pension holders allocated to Treatment 2/Warm Transfer were less likely to attend their appointment (77% attendance compared to 81% attendance rate in the Treatment 1/Online Booking group). The report concludes that cancellation rates, along with the regulatory burden and the cost of implementation, should therefore be considered when determining which, if any, intervention should be implemented.

The results were further analysed to assess whether there was a differential impact provided by a pension holder's age, gender, retirement pot size or other characteristic. None of the characteristics tested showed a significant difference in outcome.

The research also shed light on why pension holders decide not to take guidance. Those who reported that they were still exploring their retirement options were more likely to opt to have guidance than those who had a concrete decumulation plan.

The process evaluation found implementation of the interventions varied across pension providers due to some adaptation to the training programme and delivery plans. Staff training was uneven, and some staff felt that they needed to adapt the script to their own style, as they reported it to be too restrictive.

Overall however, providers reported that both the online booking and warm transfer interventions were convenient and easy to manage. The warm transfer process was considered more time-efficient for staff.

## **Additional pension decumulation and guidance literature**

As Pension Freedoms remains a relatively new policy, there is limited evidence around individuals' decumulation choices and the use of support. Evidence so far, from different sources and employing various research methodologies, points to the complexity of the decision that pension savers are facing. Regarding guidance, evidence shows that Pension Wise services are evaluated in a positive light by those who access them, but while many are overwhelmed by the prospect of decumulation decisions, a significant number of pension holders continue to access their pots without the use of advice or guidance.

It is important to caveat that the findings from existing evidence are drawn from a cohort of pension holders who may not be representative of future cohorts, given the wider changes in pensions landscape (particularly auto-enrolment) which will lead to a different mix of provision for future pensioner cohorts. In particular, current pension holders tend to have a mix of defined benefit (DB) and DC provision and may be less reliant on their DC pots for their retirement income than future generations.

### ***Current usage of guidance and the benefits from taking it***

#### **Current take-up of Pension Wise guidance**

Since its inception, usage of the Pension Wise service has been increasing. In 2019/20 over 97,000 Pension Wise face-to-face appointments were delivered, an

increase of 8% since 2018/19 and around 62,000 telephone appointments, a 55% increase since 2018/19.<sup>ii</sup>

There were around 2.75 million website visits in 2019/20 with over 45,000 people completing the digital self-serve guidance journey, a 22% increase since 2018/19.

The Pension Wise Service Evaluation 2019/20 considers the characteristics of Pension Wise users against wider target audience demographics (DC pension holders aged 50+). Pension Wise customers are more likely to be men than women (61% vs. 39%) which is consistent with expectations as more men than women aged over 50 have defined contribution pensions. Customers also tend to be aged under 65 (72% of customers) though only 13% are under the age of 55.

Almost half (41%) of Pension Wise customers have monthly household incomes of below £2,000, 35% have incomes between £2,000 and £4,000 and 25% above £4,000. Incomes for appointment bookers are slightly higher in 2019/20 than in previous years where they were considered broadly comparable to population averages for the equivalent age-group.

Average pot sizes of appointment customers in 2019/20 are consistent with previous years, where they were similar to overall industry estimates.

#### Satisfaction with the Pension Wise service

Amongst those who have used Pension Wise, overall satisfaction with the service is high. The Pension Wise Service Evaluation 2019/20 finds that 94% of face-to-face and telephone customers and 82% of self-serve online customers are satisfied with their overall experience.

Of those who had appointments, 93% of customers are satisfied with the guidance specialist's level of knowledge. 93% also felt that the discussion is clear and easy to understand and 91% say that the discussions took personal circumstances on board.

Amongst self-service online customers, 77% are satisfied that information is clear and easy to understand and 73% are satisfied that they can find the information they want.

The vast majority of users (97% of appointment customers and 88% of self-serve online) were also willing to recommend Pension Wise to others.

#### Improving pensions knowledge among savers

According to the Pension Wise Service Evaluation 2019/20, a clear benefit of attending an appointment is improving pensions knowledge. When having their pensions knowledge tested, 70% of those who had taken face-to-face and telephone guidance gave correct answers, compared to 64% of self-serve customers and 43% of non-users.

For the first time, the report also considers how informed Pension Wise customers feel about scams and how to avoid them. Around 3 months after their appointment, 95% of appointment customers and 92% of self-service customers felt very or fairly

confident in their ability to avoid pension scams. This is compared to 79% of non-users.

The report provides evidence that Pension Wise users have engaged further with retirement planning and understanding their pension options. Pension savers who access guidance are more likely to take active steps to improve their understanding of their potential financial provision in retirement. In the 3 months since using Pension Wise, 61% of appointment customers and 56% of self-serve web customers have calculated the income they will need in retirement, compared with 37% of non-users.

For those users who accessed their pot within 3 months of using Pension Wise, 90% of appointment customers, and 95% of self-serve customers have gone on to read more information about their options. This is compared to 74% of the non-users who have accessed or made arrangements in the last 12 months. In addition, 79% of appointment customers and 88% of self-serve customers spoke to their pension provider specifically about their chosen options.

### ***The complexity of pension decisions***

Evidence from the Pensions Policy Institute report *Supporting Later Life* (2019)<sup>iii</sup> and from The People's Pension and State Street Global Advisors (2016)<sup>iv</sup> qualitative research conclude that since the introduction of pension flexibilities, the complexity of retirement decisions has increased for those who have DC pension pots. Research from The People's Pension (2016)<sup>iv</sup> followed participants through their decumulation decision journey, and showed that due to the complexity of issues they faced, many pension holders postponed making a decision or actively engaging with information regarding their pension pot.

Qualitative research commissioned by DWP<sup>v</sup> confirms these findings by highlighting the wide range of factors that interplay to influence an individual's decision to access their pension pot. These include pension holders' financial circumstances, life stages (in pre-retirement and retirement), perceived financial capability and other social and cultural factors.

More recent evidence considers how the covid-19 pandemic has brought additional stress on pension holders' decision to access pension pots (Pension Bee, 2020)<sup>vi</sup>. In these circumstances, the Pension Bee report found an increasing appetite for advice and guidance. More than half of participants who had not yet accessed their pension agreed that they were more likely to take guidance or advice. In contrast to the demand for support, only 11% of people feel very well supported by their pension provider to take decisions about their pension during the covid-19 pandemic.

### ***Opportunities for advice and guidance among groups of pension savers***

While usage of the Pension Wise service has been increasing, a significant number of pension holders are still making access decisions without the use of advice or guidance. Data from the Financial Conduct Authority (FCA)<sup>vii</sup> shows that in 2019/20, 50% of pots in the DC contract-based market were accessed for the first time without the use of advice or guidance.



This is supported by qualitative evidence from The People's Pension (2016)<sup>iv</sup> which found that among participants engaged in decision-making Pension Wise guidance take-up was low (1 in 10 respondents booked an appointment), despite it being very highly valued by those who took it.

Advice or guidance plays an important role in ensuring individuals have the support they need to make decisions about their pension pots. Without this support, low levels of financial capability and engagement with pensions, behavioural biases and personal circumstances could put some pension holders at risk of making decisions that are detrimental to their future income. Some of the general attitudes or circumstances that could put pension holders at risk when making their decisions include early decumulation motivated by the tax-free lump sum; mistrust in pension providers; and mental accounting.

The FCA's Retirement Outcome Review (2017)<sup>viii</sup> has found that many enter drawdown solely to access their tax-free lump sum and as a result many end up in investments that may not be right for them, including cash. There is some evidence that those who do not make use of advice or guidance at all have been more likely to access their DC pots at a younger age (Wilkinson and Pike, 2018)<sup>ix</sup>. Pension Bee (2020)<sup>vi</sup> found similar evidence that some people may be accessing their pension early, leading to them paying too much tax and losing out on potential returns. They found two thirds of pension pots are being accessed before the age of 65. Receiving guidance before accessing their pots would make these pension customers aware of the opportunity of decumulating at different points and help them ensure their remaining provision is invested as best to support their future needs.

Mistrust in pension providers and a desire to have control over their pension pot could also lead pension holders to decisions that are potentially detrimental to their financial interests. In their Retirement Outcome Review (2017)<sup>viii</sup> the FCA express concern at the high proportion of consumers fully withdrawing their pension pots to move savings elsewhere. Consumers who described feelings of mistrust in the pension system also felt that the most secure option was to draw down their DC pension pot as a cash lump sum. They conclude that in many cases keeping money in a pension would have resulted in better returns, on average, and in paying less tax. Similarly, recent Pension Bee research (2020)<sup>vi</sup> shows that a high proportion of participants (44%) believe that taking money out of their pension would make them feel more in control of it. Guidance would potentially build confidence in the pensions industry and make pension savers aware of the opportunities of saving for their retirement in this way.

DWP research<sup>v</sup>, which looks at the drivers of decumulation decisions amongst DC pension holders, has found that mental accounting affected decision making for many participants. Mental accounting refers to the subjective value that individuals place on a pot of money that does not necessarily reflect its objective monetary value.<sup>x</sup> This influenced how likely participants were to access their pensions instead of drawing on other savings. A participant, for example, described that she would rather dip into her pension pot than into the savings she has in her bank, as she considers the latter her "emergency fund".

The same report found that pension holders consistently viewed their DC pension more as a component of their overall savings, rather than a fund specifically reserved for retirement. The research finds that some pension holders take cash withdrawals in response to a significant financial shock or shortfall in income to meet basic needs. These people could be at risk if their remaining accumulated retirement wealth is low. Appropriate advice or guidance may therefore help these individuals understand the implications for their long-term retirement provision.

Another consequence of participants engaging in mental accounting is that they often considered a small pot to be a minor part of their overall investment, which could be liquidated. Respondents tended to choose withdrawing pots they considered small, even when they did not need the entire sum, and they often considered the pot value in isolation, rather than its contribution to their overall retirement income. Appropriate support might lead pension holders to consider their provision holistically and reflect differently on the decision to decumulate.

Another group that would benefit from support are those with low household incomes. The PPI (2019)<sup>iii</sup> found evidence that those with lower levels of wealth appear to be less engaged with financial support, despite potential benefits. Almost half (45%) of those with household incomes below £20,000 are not getting any support, compared to one fifth (19%) amongst those earning incomes of more than £40,000 (PPI 2019)<sup>iii</sup>. This is consistent with findings from DWP commissioned research, which found less financially secure participants were deterred by the upfront costs of a financial adviser, and reinforces the need to ensure this group are aware of the free guidance that is available to them.

### ***Barriers to taking up pensions guidance***

This next section considers some of the barriers that stop individuals from taking guidance. DWP research<sup>v</sup> and The People's Pension (2016)<sup>iv</sup> both identify that a key barrier to accessing support is the variety of pensions information available from different sources, which some pension holders find difficult to navigate – either because of volume, because of the complexity of information or because they are finding it hard to assess how trustworthy the information is. However, among all sources of pension information, Pension Wise is the most trusted for its impartiality.

The complexity of pensions information itself can cause individuals disengage from seeking to better understand their pension options. DWP research<sup>v</sup> found that the less confident pension holders either avoided engaging with support at all or were highly dependent on advice from others, whether professional or informal. Those with low perceived financial capability expected that engagement with support would be cumbersome, time consuming and not helpful, because they wouldn't understand how to use it. According to The People's Pension report (2016)<sup>iv</sup> some also feel that their busy lives or health conditions were preventing them from taking time to access guidance and take stock of the information.

Another consequence of the wide range of available information was the difficulty of applying this information to individuals' specific circumstances. The People's

Pension (2016)<sup>iv</sup> found that, as a result, people develop a tendency to home in on information that reflects their intentions, and gloss over alternative options. Some participants to the research refused guidance because they knew the information they would receive would not be personalised, and some preferred accessing their one hour of free discussion with an independent financial adviser instead.

Perceptions of Pension Wise research also constituted barriers to accessing guidance. Some participants to the People's Pension research (2016)<sup>iv</sup> felt that the Pension Wise advisers would not be able to tell them any more than what they had read on the website. Some had heard negative feedback on the quality of the advisers in the mainstream media, which clouded their view on guidance as well.

Aside from the volume and complexity of available pensions information, other barriers to accessing support include a lack of awareness of the benefits of pensions support or a perception that guidance would not be beneficial in their circumstances. A number of participants to the DWP research into decumulation journeys<sup>v</sup> considered there was no point in taking advice or guidance when accessing a small pot. Others were convinced they had enough provision, so did not believe guidance was needed. This included those with perceived high financial capability, who were determined about what they wanted to do with their pots and did not want specialist advice. For DC savers in these circumstances, guidance would potentially have a positive impact, and would help them reflect how to best save and decumulate for their retirement.

The same research also found that there is sometimes a reluctance to find out the facts that can prevent individuals from engaging with support. Some individuals were reluctant because they did not want to confront a decision, or to find out that provision is not enough.

While further research is required to fully understand the barriers to take-up of advice and guidance, the evidence that exists suggests there are a number of circumstances where individuals might benefit from appropriate advice or guidance and in particular, that there is a lack of awareness of the benefits of such support.

---

<sup>i</sup> *The Stronger Nudge Evaluation Report* (July 2020), Money and Pensions Service/ The Behavioural Insights Team <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf>

<sup>ii</sup> *Pension Wise Service Evaluation 2019/20*, Money and Pension Service <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf>

<sup>iii</sup> *Supporting Later Life* (2019), Pensions Policy Institute <https://www.pensionspolicyinstitute.org.uk/research/research-reports/2019/2019-10-22-supporting-later-life/>

<sup>iv</sup> *New Choices, Big Decisions* (2016) The People's Pension and State Street Global Advisors, <https://bandce.co.uk/wp-content/uploads/2016/03/ssga-tpp-report-new-choices-big-decisions.pdf>

- 
- <sup>v</sup> *Pension Freedoms – a qualitative research study of individuals’ decumulation journeys*, DWP (October 2020)
- <sup>vi</sup> *Drawdown Doldrums*, Pension Bee (2020) <https://www.pensionbee.com/resources/drawdown-doldrums-report-2020.pdf>
- <sup>vii</sup> FCA retirement income market data 2019/20, <https://www.fca.org.uk/data/retirement-income-market-data>
- <sup>viii</sup> *Retirement Outcomes Review* (final report, 2018), Financial Conduct Authority <https://www.fca.org.uk/publication/market-studies/ms16-1-3.pdf>
- <sup>ix</sup> Wilkinson, L., & Pike, T. (2018). The evolving retirement landscape. Pensions Policy Institute, <https://www.pensionspolicyinstitute.org.uk/research/research-reports/2018/2018-08-05-the-evolving-retirement-landscape>
- <sup>x</sup> Thaler, R. H. (1999), Mental Accounting Matters, *Journal of Behavioural Decision Making*, 12:183-206. <https://people.bath.ac.uk/mnsrf/Teaching%202011/Thaler-99.pdf>