



Department
for Work &
Pensions

Helping savers understand their pension choices: supporting individuals at the point of access: Consultation response

Government response to the July 2023 consultation relating to the policy proposals on the support and products to be made available to members of occupational pension schemes when they access their pension assets.

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Contents

Contents

Contents.....	2
Ministerial foreword	3
Chapter 1: Introduction	4
Chapter 2: The Roles and Responsibilities of Trustees	5
Chapter 3: Use of Legislation	9
Chapter 4: CDCs in Decumulation.....	11
Chapter 5: Defaults	13
Chapter 6: Administration of the scheme and use of Partnering	20
Chapter 7: Impacts on Business.....	24
Chapter 8: Guidance and Communications	26
Chapter 9: Role of Nest.....	28
Chapter 10: Conclusion.....	30
Annex A: Respondents to the Consultation.....	32

Ministerial foreword

It is vital that we get as many people as possible to engage with their pension, and that savers have a choice of appropriate options as they approach retirement. We also need to look after those who do not engage. We have done this effectively during the accumulation period, now we need to do it better in decumulation.

We believe the right approach is to ensure freedom and choice for those pension savers who are actively engaged in their retirement plans, and suitable default products for those who need them. That is the vision which sits at the heart of our reforms. The consultation response asks that all schemes will offer a set of decumulation options by default that members will be opted into. This means no one will be hit by a change in retirement and will stop people defaulting themselves, which currently happens with over half (56%) of DC pots in the contract-based market.

This approach will also allow new innovation such as CDCs to be part of the market over time and well ensure members are always protected.

Paul Maynard MP, Minister for Pensions

Chapter 1: Introduction

About this Government Response

1. The response has been structured to bring together the feedback and Government response in a way that is structured around themes rather than in a linear way.
2. The overriding principles in the measures set out in the following chapters is to provide for members of occupational schemes to have a more secure income in later life.

Overview of Responses

3. The consultation was open for responses between 11 July 2023 and 5 September 2023. The Department for Work and Pensions (DWP) asked 22 questions in relation to the products and services being proposed to support individuals make informed decisions about how to use their pension assets. 70 responses were received from a range of pension schemes and providers, industry representative bodies, consumer representative groups, and individuals.
4. This document sets out the government's response to the consultation, including DWP's views, and next steps.
5. The government would like to thank all respondents for taking the time to respond to this consultation, and for sharing their views. A list of respondents can be found at **Annex A**.

Chapter 2: The Roles and Responsibilities of Trustees

Consultation responses

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

6. There were 59 responses to this question.
7. Many respondents, agree that trustees should, as a minimum, facilitate a core offer of decumulation services, either in-house or through partnering, that include options for each category of product in line with pension freedoms. 75% of overall respondents agree that trustees are best placed to determine the suites of products to be offered to their members. However, 25% of respondents have raised concerns that trustees may not have sufficient resources or range of knowledge to offer personalised product recommendations to scheme members.
8. Five respondents have suggested that close links to guidance providers such as Pension Wise and The Money and Pensions Service will be important in overcoming this.
9. Whilst there is strong support for the need for a decumulation framework, three respondents have stressed that this needs to be achieved without excessive bureaucracy or governance. Four responses also suggest that it is too early to make a final decision as to whether Collective Defined Contributions (CDCs) should be included within the core range of decumulation offers.
10. Responses were almost unanimous in relation to the need to legislate to introduce duties on trustees. It was felt by the majority of respondents that without some form of legislation, the situation would remain broadly as it currently is.

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

11. There were 50 responses to this question.
12. It is generally recognised that, as a minimum, trustees should provide access to all available income solutions either directly, in partnership or by signposting.
13. 24 respondents feel that trustees should offer members guidance about the decumulation options available and signpost further advice services where required.

14. 8 respondents acknowledge the need for a default decumulation solution for those members that do not engage. It is worth noting, respondents recognise that members enter retirement with a diverse set of personal circumstances and consequently have wide ranging advice requirements. It is therefore important that any future regulation around minimum requirements are flexible.

Question 8 – Do you have any suggestions for key metrics or areas that would need to be included if the proposed Value for Money (VfM) framework was extended to decumulation or suggestions for where proposed metrics may no longer be required?

15. There are 52 responses to this question.

16. There is significant appetite for the framework to mirror many of the metrics proposed to assess accumulation. Metrics illustrating costs and charges, investment performance, and quality of service were the most frequently highlighted.

17. In particular, 27 respondents emphasised the importance of risk metrics including maximum drawdown comparators to help manage the early exhaustion of funds.

18. Whilst 17 respondents are broadly supportive that VfM measures should extend to decumulation, 6 respondents raised concerns that the consequences of failing to meet accumulation metrics, i.e., potential wind up, would be dangerous to apply to decumulation. For example, requiring a scheme to wind up when they are high performing in accumulation but less strong in decumulation, would potentially act against the members interests.

19. There is also a strong feeling that information needs to be member focussed and easily digestible, some have highlighted RAG rating as an efficient way to present this.

20. 11 respondents also note the need to focus on income generation when considering drawdown products, highlighting the level and stability of income delivered against the product's objective as a critical outcome-based assessment.

DWP view

21. DWP welcome the input received in relation to the proposed role of trustees and acknowledge all the points raised.

22. We agree that trustees have a critical role to play in providing support to their members to try and make optimal decisions on how to use their pension assets in later life. Trustees are best placed to understand their members and to determine the suites of products to be offered to their members. We believe that the additional responsibilities to provide solutions should apply to all

trustees. This will ensure that all members regardless of the occupational scheme they are in will have an in-house offer of products and services, whilst still allowing them to access the products and services available under pension freedoms if they choose to.

23. This approach does raise issues when members have multiple pots. Our approach could lead to multiple service offers and/or defaults which could be confusing or sub-optimal for member outcomes. However, DWP believes there are mitigations that are in train or could be put in place to address this concern:

- We know there is active consideration in the market around scheme consolidation;
- We expect trustees / scheme managers as part of the service offer to be much more alert to the potential for pot consolidation;
- We will have active engagement with the Money and Pensions Service to ensure the Pension Wise offer and Stronger Nudge intervention includes details of the new approach;
- DWP has been clear that we see a role for Collective Defined Contribution schemes in the pension landscape of the future, which would make individual choice architecture less complicated due to the investment decisions being taken on behalf of the member,
- Government has confirmed in their consultation response to [Ending the proliferation of deferred small pots](#)¹, that we will implement the multiple default consolidator approach, to automatically consolidate individuals eligible deferred small pots into one place. This will have a direct bearing on the number and size of pots available to members of occupational schemes.
- The government is also looking at tackling the problem of multiple pension pots, with the call for evidence on a lifetime provider model; such a model would also have a direct impact on savers experience at decumulation.

24. We acknowledge the concerns raised about the knowledge, resource, and capability of trustees to fulfill their duty to offer their members products for decumulation. Our decumulation policies are designed to shift the industry's focus towards supporting individuals to make informed decisions at decumulation. We have been clear that if schemes do not have the scale or expertise to provide decumulation solutions that meet the member needs, are user centric and member-led then they should consider consolidating into a scheme that can, where this is in members' best interests.

¹ [Ending the proliferation of deferred small pots - GOV.UK \(www.gov.uk\)](#)

25. Through the recent call for evidence [Pension trustee skills, capability and culture](#)² published in July 2023, DWP collected information specifically on the skills, guidance, and advice that pension trustees need. We will continue to consider how trustees can increase their knowledge and capabilities to offer member-centric decumulation services through available learning and accreditation. This will support trustees to have the knowledge they need to make decumulation and default decisions³ that will be in the best interest of their members.
26. We acknowledge that there is a challenge for trustees in having a clear sight of their cohort or individual aspirations. However, DWP want user insight and user-centric design to be much more at the forefront of all trustees thinking.
27. We intend to rely on the trustee's fiduciary duty to act in the members best interests when developing the suite of products and services. However, we will keep this under review and may introduce further requirements separate to the fiduciary duty if what is being offered is not obviously in the members best interest.
28. With these considerations in mind, DWP will at the earliest opportunity place duties on all trustees of occupational pension schemes to offer a a range of different decumulation products and services to members at the point of access.

² [Pension trustee skills, capability and culture: a call for evidence - GOV.UK \(www.gov.uk\)](#)

³ by which we mean the guarantee, by the pension scheme, to provide a generic solution, based on the general profile of the membership.

Chapter 3: Use of Legislation

Consultation responses

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

29. There were 53 responses to this question. There was strong agreement among the responses that legislation is required to meet the desired outcomes for members and to provide robust and clear requirements for schemes in the long term. However, some responses did suggest that in the short term, guidance could be an alternative as it would help accelerate progress, given legislation will take time. Guidance could be used to set out the expectation on schemes which could help 'nudge' schemes and best practise could be shared. Whereas others thought that if guidance came in first, schemes may not adhere to it, given other requirements and worries about crossing the advice/guidance boundary. There was agreement that any requirements set out in legislation should be supported by The Pensions Regulator's (TPR) guidance so that it could provide the detail to support schemes implement changes. Others commented that minimum standards should be legislated for, but that facilitation of access to retirement solutions should be set out in guidance.
30. It was noted by some respondents that any legislation should be, where appropriate consistent with the Financial Conduct Authorities (FCA) rules and should take account of the VfM framework and the FCA/HMT review into the advice/guidance boundary. The VfM framework was suggested by a few respondents as an alternative to legislation if it were extended to decumulation, as it would require schemes to assess the offer they provide to their members in retirement.

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

31. There were 44 responses to this question. Of those willing to commit directly to a timeframe, answers ranged between one year and fully implemented by 2030. Some respondents believe that the proposal would be more successful if combined with other pending activity or legislative changes such as VfM and the outcome of the advice/guidance boundary review and recognise that a coherent, tied up approach would have a longer legal passage initially. In terms of lead in time to allow schemes to implement arrangements after legislation, 18 months to 2 years is the most frequently suggested.

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

32. There were 51 responses to this question. Many respondents did not think there was a case to apply the legislation to Master Trusts first. The reasons

given for this were: Master Trusts are already offering most decumulation products and it is the single employer trusts who are more likely to not offer all products to their members and therefore where the legislation would have the biggest impact for members. Many respondents also highlighted that having different requirements could lead to a complex multi-tier system which risks confusion and good member outcomes. Some respondents also noted that if smaller schemes are unable to comply, this could suggest that they are not VfM, and should consider winding up.

DWP view

33. Much of the feedback DWP received from the consultation suggested that without legislation to introduce the duties, the significant switch towards each member being offered decumulation solutions is unlikely to happen. It was pointed out that trustees who already offer decumulation products and services will continue to do so and some may seek to further innovate and develop different propositions for their members. Whereas those schemes, who currently offer no decumulation solutions, are likely to continue as they are. We are concerned that without legislation to mandate schemes that members will continue to have significantly different experiences at the point of access in terms of the quality of service.
34. The policy intent is still to ensure a level of support for those who find the decisions they need to make at the point of access daunting. Given this, and to guard against the risk that members will continue to have significant different experiences based on the scheme they are enrolled in, DWP intend to introduce legislation, when parliamentary time allows, to place duties on trustees to offer a suite of decumulation products and services, which are suitable for their members and consistent with pension freedoms. We acknowledge this approach may lead to different services being offered by different schemes, but it will lead to a service offer across all schemes that will be based on the membership profile of the scheme.
35. Until the opportunity arises to introduce this legislative approach, we will work with TPR as they bring forward interim guidance to show how the objectives of these policies can be met without legislation, and to encourage innovation.
36. This will allow schemes already offering decumulation products and service to continue to innovate whilst securing a broad alignment across providers, providing all members with options through their scheme at the point of access.

Chapter 4: CDCs in Decumulation

Consultation responses

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

37. Whilst there is some support for CDCs within the decumulation market, there is a strong suggestion that focus needs to be broader than CDCs alone. Of the 53 responses to this question, 30% raise various concerns about the immediate introduction of CDCs and urge further consideration of the role they will play in decumulation, particularly decumulation only CDCs.
38. 16 respondents believe that the CDC market needs to develop before decisions can be properly informed and that CDCs, whilst potentially beneficial to some, are not an appropriate universal solution. There is also concern that too much attention in one area could stifle innovation of alternative decumulation products.
39. However, responses to this question are divided. Most of those who support the emergence of CDC in the decumulation market, acknowledge that to facilitate it, the government will need robust legislation. There is also need for a framework which would enable savers to not only compare CDC schemes but also to compare to annuity or drawdown.
40. A clear timescale for legislation would give potential providers confidence that any work on CDC decumulation solutions is likely to be a worthwhile investment. There is suggestion that CDC pensions should be subject to the same standards of disclosure, risk warnings, capital adequacy, transparency, and consumer communication as any of the alternative product solutions.
41. 8 respondents suggest that it is unfair to promote CDC over other decumulation options and that market development needs to be on a level basis where one potential decumulation solution is not favoured above others from a regulatory perspective. Strong engagement with FCA is highlighted as important in this area.
42. To support knowledge and expertise during the implementation phase, there is suggestion that an information and education program for trustees and sponsors may help to encourage a decumulation-only CDC market.

DWP view

43. The majority of respondents understood the benefits of members being offered a CDC solution at decumulation, although some raised concerns that a decumulation only CDC may not be optimal for everyone.

44. We recognise the impact of CDCs will differ depending on individual circumstances, investment outcomes and scheme design. However, as discussed in DWP's [Analysing the impact of Private Pension measures on member outcomes \(publishing.service.gov.uk\)](#)⁴ industry and academics agree CDC decumulation is likely to produce higher outcomes than annuities. From a range of sources, DWP estimated the decumulation phase of CDCs may offer a 20% uplift on top of an annuity income level.
45. We have carefully considered the role of CDCs in the pensions landscape of the future and see them as a potential future model for pensions. Schemes could consider a CDC option in decumulation for their members consistent with the market developing, which could be a default offer to their members.
46. We therefore intend to continue to work with the pensions industry to explore how to establish a CDC decumulation model that works in the UK.
47. DWP believes that trust-based CDCs have the potential to be a promising future model for pensions and could be actively considered by occupational pension schemes, including as part of their decumulation offer. The department is putting in place a regulatory framework for multi-employer schemes to offer CDCs, and we support the market development in this area. Alongside this consultation response the department has issued a call for evidence on access to CDC arrangements and opportunities to stimulate the market.

⁴ [Analysing the impact of Private Pension measures on member outcomes \(publishing.service.gov.uk\)](#)

Chapter 5: Defaults

Consultation responses

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

48. There were 52 responses to this question. 27 responses suggested that trustees have a duty to act in the member's best interest - the focus should be on the aspirations of their current and future members, specifically: wealth factors, objectives, levels of engagement, financial capability, life expectancy, and death benefit preferences. Only 2 responses suggested that trustees should consider their members wider household circumstances, although it should be acknowledged that this information may not be available to the trustees.
49. 27 responses also mentioned that the decumulation offer should have a foundation of guided support and that trustees should consider early engagement that is effective with their members.
50. Beyond the costs, legalities, and operational factors, respondents also noted that decumulation offers should consider flexibility, inflation risks, risk management, and value for money. Many responses also mentioned the need to consider advice and guidance services in their offer. Some responses suggested that decumulation offers should be reviewed every couple of years to ensure that they are adequate.
51. Other points raised were regarding consumer protection and the due diligence required around partnering.

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?

- Do you only want a regular income?
 - Do you want flexible access to your pension benefits?
 - Do you want a combination of both?
 - Do you want something else?
52. There are 51 responses to this question.
53. 17 respondents suggested that these are the right questions. However, 27 respondents disagreed. 31 respondents suggested that the questions are too broad and simplistic, and that they need further development.
54. Feedback suggested that the questions in their current form, do not capture all the ways members can, or may want to, access their pension. They do not reflect the view that many members are likely to want blended solutions or

take account of future innovation.

55. 11 respondents suggested there should be a closer alignment with the FCA framework. 11 responses also noted that it would be useful if the questions were framed in the wider context of a narrative and explanation of all the choices available.

56. 2 respondents also acknowledge that adding more questions in may be difficult due to the current advice/guidance boundary adding that Government should consider changes in that space.

57. 2 respondents suggested that the language of 'pension wealth' is not appropriate and instead we should be referring to 'pension income'.

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

58. There were 49 responses to this question.

59. 27 respondents believe that more should be captured around: beneficiaries, guarantee preferences, inflation risk preferences, any health issues, and time horizons – all of which are useful when deciding on products and services.

60. Respondents also suggest that questions should look to capture short, medium, and long-term requirements of the member, noting that some members may want a mixture of flexible and guaranteed income which should be embedded into the questions. Respondents also suggest that members should be asked whether they would like to take full cash withdrawal. They also note that some members may want to only take a tax-free lump sum and leave the rest invested, and some may not want to take anything at all at the point when the question is asked.

61. Other suggestions included the ability to split your pot into rainy day funds, one-off costs, homecare costs etc. 8 respondents also noted that if the member has multiple pots, trustees should encourage members to consolidate, and this should form a part of the set of questions.

62. 6 respondents felt that the questions should have a layer of guidance alongside them. For example, there should be some questions on financial knowledge and confidence in making retirement decisions to help nudge people towards guidance. One respondent also suggested that there should be information around the questions to help members understand the risk. For example, show members what proportion of people underestimate how long they live; roughly what proportion of people who pursue self-managed flexible drawdown withdraw at a rate that risks running out of money, alongside tax implications. Respondents also noted that there should be a basic level comparison of annuity and drawdown risks and rewards.

63. 7 respondents noted that members should be asked whether they would like to frequently review the options available to them, or whether they just want to make one decision. One respondent suggested the idea of presenting options in a flowchart based on members requirements.

64. 21 respondents suggested an alternative approach to others. Rather than framing the questions around products and services, they suggested that questions should be asked about a member's desired target or minimum income in retirement.

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?

65. There were 41 responses to this question.

66. 7 of the responses stated that they signpost their customers to Pension Wise, with 6 others stating they also signpost their customers to regulated Financial Advice.

67. Regarding safeguarding and information provided, there seemed to be broad agreement on what schemes should be providing. Organisations suggested that there are several key themes:

- Scam prevention;
- Ensuring adequacy;
- What are the correct products for them, based on their individual circumstances; and
- The investments' structure and its performance.

68. Across the schemes that responded, there was reference to a range of information and support given, with some only going as far what they are legislated to do, whilst others went much further e.g., having a holistic journey of communication which include the use of digital tools such as retirement calculators etc.

69. Across the responses there was mention of the issues in providing information arising from the advice/guidance boundary.

70. Lastly, there were differing opinions on who's responsibility it is to make sure savers make well-informed decisions, some pointed to the need for a holistic framework of support to help members, which could include pushing some members to affirmative action (as mentioned by one scheme). This contrasted with a minority of responses that questioned how far this is the government and schemes responsibility to make sure savers make informed decisions.

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

71. There are 32 respondents to this question.

72. Of the 18 respondents currently providing a decumulation service, 10 state that charges are the same as in the accumulation phase. Those that charge a higher rate in decumulation have attributed this to various factors, such as increased administration for drawdown products and advice fees. It is worth noting that respondents outside of the pensions industry, namely consumer representative groups are broadly critical of the disparity in cost between accumulation and decumulation services.

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

73. There were 48 responses to this question.

74. Within this question, there were a range of responses with many seeing a centralised scheme only being needed in the case of market failure and that a centralised scheme could discourage a thriving market, with a number of providers operating in a competitive space.

75. Others saw the need for a centralised scheme, only for those unable to provide certain decumulation options (including because they are not commercially attractive for commercial providers), in cases such as these there is a role for a 'backstop' provider.

76. Furthermore, some noted that a centralised scheme could be useful when a member's scheme is not providing VfM or in the development of CDCs.

77. One respondent noted that Nest has provided an example of a successful 'default' scheme in the accumulation space, this could usefully be extended to decumulation with the establishment of a similar provider (or an expansion of Nest's responsibility). This might be particularly helpful for schemes that are too small to attract partnering arrangements. However, others were worried about having another 'NEST equivalent' and the impact this would have on a competitive market.

78. One response noted what could be developed is a centralised 'information point'. The information point would guide individuals towards providers or schemes suitable for their needs.

79. Overall, most responses seemed sceptical of having an expansive centralised scheme, but some were supportive of developing a form of centralised scheme when it would benefit members whilst keeping a thriving competitive market.

DWP view

80. We have carefully considered the responses in relation to the concept of defaults, including what would constitute a default in decumulation. It is our

view that in the case of decumulation a default is the guarantee, by the pension scheme, to provide a generic solution, based on the general profile of the membership.

81. Having considered the alternative suggestions put forward for the finalised policy position we identified two policy options:

Option 1 – Active ‘Opt-in’. Pension schemes would be required to offer the member a suite of options, equivalent to those available to a member through pension freedoms, and the member would have to make the choice to opt-in or not; or

Option 2 – Active ‘Opt-out’. The pension scheme would be required to develop a generic solution, based on the general profile of their members. As a backstop the member would be placed into this solution if they access their pension assets, but do not make an active choice about what they want to do with them, for example, taking a tax-free lump sum and leaving the remaining percentage in cash.

82. There is strong evidence, through the responses to our call for evidence and policy consultation that irrespective of the extent to which schemes and others, such as employers and government, try to get members engaged with their private pensions, a proportion will not. Feedback was that as we rely on inertia in accumulation, you cannot expect that not to be the case in decumulation.

83. We acknowledge the feedback we received that a generic single or suite of options will not be optimal for every single member. However, we have concluded that a backstop default solution or suite of solutions that does not require an active choice, is more optimal for many than the alternatives of being faced with often complex decisions, which they do not feel competent enough to make.

84. There is the added advantage that with the opportunity for members to remain invested in the scheme, rather than cash out, the scheme will have more confidence to look at alternative investments, such as equities, for longer.

85. Feedback received to the consultation suggested that members of occupational pension schemes ‘want someone to manage their pensions for them’.

86. The FCA’s Financial Lives survey 2022⁵ also found that under half (49%) of non-retired adults aged 55 to 64 had thought about how they were going to manage financially in retirement, with 56% of this age group that have a DC pension in accumulation knowing they have to make a choice but not having a clear plan. With 13% of this age group not knowing they even have to make a

⁵ [Financial Lives 2022 survey | FCA](#)

choice, highlighting that many individuals may be transitioning in retirement without having considered what information they needed to be able to make their own informed choice. In 2021/22, 61% of DC pots operated by FCA-authorized firms accessed for the first time entered drawdown where only a Pension Commencement Lump Sum (PCLS, or tax-free cash) was taken⁶. This highlights how many people are deciding to only take their tax-free lump sum.

87. The Australian Prudential Regulation Authority (APRA) introduced their Retirement Income Covenant in 2022⁷.

88. Through the Covenant APRA have asked trustees to meet 3 requirements they see as core:

- understanding member's needs;
- designing fit for purpose retirement assistance; and
- overseeing retirement income strategy implementation

89. This requires super trustees to develop and publish a summary of the retirement income strategy for their members, designed to improve the financial outcomes for Australian retirees, particularly for those who are disengaged. It applies to all members who are retired or approaching retirement. It is principles based so does not require schemes to implement a certain product but which ever retirement solution they provide they must aim to:

- Maximise income in retirement;
- Manage expected risks to sustainability and stability of their expected retirement income including longevity, investment, and inflation risks; and
- Provide flexible access to expected funds during retirement.

90. This is a clear example of using trustees understanding of members needs to decide on products to be offered and in designing the appropriate default, consistent with member profile and needs being critical to the way forward.

91. After careful consideration of both options, it is the intention of DWP to proceed with Option 2, where members in trust-based schemes will be placed into a decumulation solution by their pension scheme unless they make an active choice.

⁶ [Retirement income market data 2021/22 | FCA](#)

⁷ [APRA – Margaret Cole and ASIC – Jane Eccleston - Speech to the Conexus Retirement Conference | APRA](#)

92. Our intention is to establish a broad alignment across occupational pension schemes to provide decumulation solutions to their members. We believe Option 2 will ensure every member of an occupational pension scheme has access to a decumulation solution if they cannot or do not want to make the often-complex decisions when accessing. Whilst at the same time encouraging schemes to innovate and find appropriate solutions for their members.

93. DWP acknowledges this approach does raise issues when members have multiple pots. Our approach could lead to multiple defaults which could be confusing or sub-optimal for member outcomes. However, DWP believes there are mitigations that are in train or could be put in place to address this concern:

- We will have active engagement with the Money and Pensions Service to ensure the Pension Wise offer and Stronger Nudge intervention includes details of the new approach;
- We envisage the duties outlined earlier in this response will include that there must be effective engagement with members. Ultimately this could help with consolidation of multiple pots, before a member is opted into a default solution.
- Government has confirmed in their consultation response to [Ending the proliferation of deferred small pots](#)⁸, that we will implement the multiple default consolidator approach, to automatically consolidate individuals eligible deferred small pots into one place. This will have a direct bearing on the number and size of pots available to members of occupational schemes. The government is also looking at tackling the problem of multiple pension pots, with the call for evidence on a lifetime provider model; such a model would also have a direct impact on savers experience at decumulation.

94. We do not intend the default to remove a member's access to pension freedoms and, as stated previously, support schemes developing innovative decumulation solutions. It is not the intention of DWP to be prescriptive on what the default solution should be, but to allow flexibility around design.

95. In the consultation we sought specific feedback on questions that could help trustees determine the range of options they would offer, similar to Investment Pathways. Feedback suggested members of occupational pension schemes may have a wide range of needs. As such, any questions would need to cover a wide range of options be unlikely to capture all the needs of a member.

⁸ [Ending the proliferation of deferred small pots - GOV.UK \(www.gov.uk\)](#)

DWP does not therefore propose to suggest a range of questions but leave it to the trustees to determine how they assess the needs of their members.

96. It is critical that a solution that includes defaults is underpinned by clear communications to members. They will need to understand the implications of not making an active choice about decumulation products. Chapter 8 provides more on Guidance and Communications. We will also want to consider, before formally introducing the approach, whether it is appropriate that members have a 'cooling off period' and / or a point at which decisions could be reversible.

97. Where the default proposed involves an occupational pension scheme product provided under the occupational pension scheme or by the trustees then the advice/guidance boundary is not relevant. This is due to rights under occupational pension schemes not being specified investments for the purposes of the advising on investments activity under Article 53 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. However, the advice/guidance boundary (as well as other aspects such as whether the trustee is engaging in arranging activities or whether its consumer communication constitutes a financial promotion) is a key consideration in the partnership aspect of the proposals (depending on how those partnership arrangements operate). We will work with the FCA going forward to explore this.

98. There was overwhelming feedback that there is no need to introduce, at this point, a centralised scheme to provide decumulation solutions, as it is not envisaged there will be a market failure. DWP therefore do not intend pursuing this option, at present. We will continue to review the position to ensure there are no members without a decumulation solution.

Chapter 6: Administration of the scheme and use of Partnering

Consultation responses

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

99. 43 respondents expressed a view about this question.

100. There is significant support for partnering in principle, 20 respondents recognise that partnering with external providers would provide members with an improved range of decumulation options. However, there is a strong feeling that liability needs to be clearly defined. Principally, an understanding of how liability is apportioned in the event of partner failure.

101. Similarly, the level of duty on trustees to monitor, compare and re-tender any partnerships would need to be made clear. Many respondents have highlighted the need for robust governance structure in this area.

102. There are also potential feasibility issues, many have concerns about the number of third parties willing to accept decumulation business from smaller schemes. 8 also suggest that operational constraints make it difficult for most schemes to deliver decumulation products through partnering, without the need to transfer out of the scheme.

103. 5 respondents have also noted that trustees will need to take advice in connection with suitable partnering arrangements if they do not have the scale to provide decumulation options in their scheme. This will add a layer of cost which is ultimately likely to be met by the member.

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

104. There were 38 responses to this question.

105. Of those committing to a yes or no answer, 16 indicated that they would support the introduction of a minimum standard partnering arrangement, whilst 12 opposed the idea.

106. Amongst those not committing directly to a preference at this stage, many suggest that guidance on the key features of a good partnering arrangement may suffice initially. A small number of respondents have suggested decumulation services align entirely with the requirements of the VfM framework.

107. Of those opposed to the proposal, many have indicated that it should be expected within the trustee's general duties, to ensure the quality of a partnering arrangement and that the time and resource required to comply with another area of due diligence would be burdensome.

Question 13 –

a) Should all schemes be allowed to establish partnership arrangements or only schemes of a certain size?

108. There were 50 responses to this question.

109. There was general consensus that the size of scheme should not be a factor in determining if schemes are allowed to establish partnership arrangements. Responses stated that the strength and quality of the scheme should be at the forefront, not the size. Furthermore, responses noted that it is much fairer for members if all scheme sizes are allowed to partner, so all members, regardless of the size of scheme they are in, have access to a range of decumulation options.

110. Although the responses did not see size as important, some responses noted that some schemes might be too small or seem less favourable for larger schemes to want to partner with. Therefore, there was one suggestion of a 'backstop provider' for these circumstances. Beyond size, some responses noted a lack of support for partnering, seeing it as not appropriate or necessary. Others pointed to the cost associated in partnering, stating that there will be significant one-off and ongoing costs involved in setting up partnership agreements and in referring members to partners. These issues would impact smaller scheme's ability to partner.

b) If only a certain size what should that be?

111. There were 5 responses to this question.

112. Of these responses, none reported that a scheme should be a certain size in order to establish partnerships. Answers to this question were very similar to Question 13a. The organisations stated that size is not necessarily the best measure to establish if a scheme is viable for partnering, it is better to base it on the outcomes of the schemes instead of size. Furthermore, a member representative group stated that members could suffer sub-optimal outcomes if the provider is unable or does not want to offer a particular product themselves and is unable to partner with other organisations to meet the needs of their members. Therefore stated, it would not be in the interests of members for there to be a size limit.

DWP view

113. DWP welcome the input received in relation to the proposal to allow schemes to partner with external providers and appreciate all the points raised.

114. As mentioned previously in this response, feedback strongly suggested that partnering should be determined based on products and services available as opposed to scheme size. This led to respondents suggesting that no restrictions should be placed on which schemes should be allowed to develop partnerships which would offer the widest possible solutions to members.

115. We agree that allowing schemes to enter partnership arrangements will provide members an improved range of decumulation options. We agree that the size of a scheme should not impact whether they are allowed to enter into such a partnering arrangement. We therefore believe that the fairest solution is to allow all schemes, regardless of their size, to be able to partner. This supports the policy aims of ensuring that all members, regardless of the scheme they are in, have improved access to the full range of pension freedom decumulation products and solutions.

116. Other options we have considered included not allowing partnering and limiting partnership arrangements based on scheme size. We are aware that not allowing partnering is likely to have a significant impact on our wider policy aim of consolidation. However, we believe that not allowing partnering may lead to some schemes being driven to develop solutions to prevent them winding up that

may not be optimal for their members. There are similar pros and cons to limiting partnership arrangements to be based on scheme size.

117. DWP's view therefore is that the overriding aim of policies in decumulation should be to deliver optimal options and outcomes for members, therefore we do not intend to set any limitations based on the size of a scheme to prevent them entering into a partnership agreement.

118. Whilst the feedback we have received has shown significant support for the principle of partnering, there were more detailed concerns raised, this included:

- The size of schemes impacting their ability to form partnerships;
- The cost associated with partnering;
- Apportioned liability between the partners; and
- Governance structures.

119. Although responses did not see the size of schemes to be something that should be restricted, there were concerns that some schemes may be seen as too small, and therefore less favourable, for larger schemes to partner with. We are aware that some schemes already set minimum thresholds for members attempting to take out products with them and see there is potential that may also apply to schemes looking to enter into a partnership arrangement. We will work with industry and regulators to develop a position if this were to happen.

120. The advice/guidance boundary (as well as other aspects such as whether the trustee is engaging in arranging activities or whether its consumer communication constitutes a financial promotion) is a key consideration in the partnership aspect of the proposals (depending on how those partnership arrangements operate). We will work with the FCA going forward to explore this.

121. In the consultation DWP sought views on the concept of a centralised scheme to offer decumulation solutions when a member's current scheme does not or cannot offer solutions. With the exception of one specific response, who thought there may be a role for a 'backstop provider', the majority felt there was no need to establish such a provider. They argued there would be sufficient schemes that would be offering partnership arrangements to ensure there was a decumulation route for all members.

122. We will, however, keep this position under review through our ongoing evaluation of the approach and consider if a different approach is required if supply does not emerge to meet scheme member needs at an appropriate quality and price.

Chapter 7: Impacts on Business

Consultation responses

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

123. There were 24 responses to this question. The vast majority of respondents were unable to quantify any of the costs to business at this stage and would need additional information before they were able to do so.
124. Some respondents did acknowledge that the cost of offering a CDC in decumulation would be higher than any of the other currently available products. Reasons for this included: complexities around the product, lack of scale at the outset, legal input, actuarial design work and viability assessments, communications, setting up a trust, and appointing trustees.
125. One respondent that was able to quantify costs estimated that the selecting a preferred drawdown provider costs could cost around £15k to £20k but setting up a CDC is likely to cost in the millions.

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?

126. There were 22 responses to this question. Again, many respondents suggested that it was too early to estimate any breakeven points.
127. Several respondents suggested that the breakeven point for CDC in decumulation is likely be higher than any other product. Many also mentioned that the cost is dependent on several factors including scheme size and ongoing running costs.
128. For respondents that did provide breakeven points, estimates varied between £10,000 and £40,000 for drawdown and £2k-£10k for annuities. For a more blended approach to product offerings, £50,000 was suggested as more reasonable. There were limited responses about CDC in decumulation given it is not yet a product on the market. However, suggestions were provided between £25,000 and £100,000. One respondent also referred to the £30,000 trivial commutation threshold as a potential reference point for CDC in decumulation.

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

129. There were 43 responses to this question. The respondents provided several benefits to the proposals but mostly believed that it was exceedingly difficult to quantify at this stage:

Savers

- Higher retirement income for members.
- Reduce number of scam victims as less need to transfer.
- Enhanced ease of accessibility.
- Greater engagement and increased confidence in the system.

Pensions Market

- Stimulate competition and innovation.
- Increased investments into higher growth assets.
- Lower on-going average costs in decumulation.
- Increasing consistency across the markets.

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

130. There were 38 responses to this question. 22 responses believed that the benefits of the proposed changes should outweigh the costs for the reasons outlined in question 21.

131. Others stated that it was not possible to make an accurate comparison as the benefits and some costs are largely unquantifiable at this stage. Some mentioned that smaller schemes may experience higher costs than benefits.

DWP view

132. We acknowledge the feedback received and that most pointed to it being too early to provide quantifiable costs to business of the policy proposals. However, there was a consistent view that even without being able to assess the impact the benefits of the proposed policies will ultimately outweigh the costs on schemes.

133. Although DWP agrees there will be impact on business and it is too early to fully assess what these are, it is not a compelling enough reason not to proceed along the lines outlined previously. That said, DWP intend to keep the impact of business under review, as it becomes more obvious what these are.

Chapter 8: Guidance and Communications

Consultation responses

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.

134. There are 54 responses to this question.
135. Feedback was mixed on whether the current approach conflicts with the advice/guidance boundary. On the whole, respondents believe that simply presenting product choices within a questions framework has no implications as there is no individuality in that. However, most responses agree that personalisation of choices and ‘more effective guidance’ is necessary but will likely risk cross the current boundary.
136. 27 responses suggest DWP should consider how it expects trustees to respond to members answering the questions and whether the expectation is permissible under the current rules. Many referred to the current advice guidance boundary review and suggested that any proposals should be considered alongside this review.
137. Respondents also believe that thought needs to be given to trustee liability and the decision architecture needs to be carefully designed. There were 24 suggestions relating to DWP engaging with FCA and HMT on the review. Respondents suggested that this is the perfect time for further clarification on the advice and guidance boundary.
138. One respondent suggested to mitigate the risks, the use of risk warnings alongside any communications akin to those used by the FCA. Another respondent suggested an extension to Pension Wise with a referral process similar to the conditions of transfer regulations to help trustees. Respondents also suggest that members should be made aware of the difference between the guidance which they are receiving and the advice they could get. A couple of respondents suggested that DWP should clarify whether the duty would entail trustees undertaking the regulated activity known as ‘arranging activity’ if they steer members towards products or schemes.

DWP view

139. Responses raised the links between guidance, communications, and members engagement with the options offered to them at the point of access. Having carefully considered the responses in relation to guidance and communications, DWP expects trustees to develop appropriate communications and guidance as part of the service offer outlined previously.

140. We recognise the importance of the advice/guidance boundary review and its aim to ensure that consumers get the help they want, at the time they need it, and at a cost that is affordable, to help them make informed financial decisions. We are working closely with the FCA and HMT as the review progresses.
141. It is expected that the current and future changes to pensions policy, such as Pensions Dashboards, VfM, which includes proposed metrics on member communications and member satisfaction surveys and Small Pots, is likely to change the way individuals want to engage with their schemes and how their scheme want to communicate with them. It may also impact the best points to engage with someone throughout both accumulation and decumulation phases.
142. We recognise the importance of member communication and engagement across the savings journey. We are currently considering how we might further improve the approach taken by government, pension schemes and employers.
143. We acknowledge that these proposals will have additional costs to business, but we expect there also to be additional revenue to schemes given more members will be staying within the scheme during retirement. Our regulatory impact assessment will draw on industry and international evidence to assess the costs and benefits to business and members.

Chapter 9: Role of Nest

Consultation responses

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?

144. There were 46 responses to this question. The responses broadly aligned with those received in the Call for Evidence and that, on grounds of fairness, Nest should be allowed to expand on the products it currently offers to its members at decumulation stage.
145. Nest should be able to offer the same or comparable products and outcomes as those offered to scheme members in the industry but on the proviso Nest members are neither advantaged nor disadvantaged with members in other schemes. Some concerns were raised about how this would be provided, whether Nest should provide these products themselves or partner with the most competitive schemes to ensure the best outcomes for their members. Other concerns identified in the responses included is there a market failure and the need to address it, there does not appear to be one, and subsidy control.
146. There were mixed views on whether Nest should be used to stimulate the decumulation-only CDC market. If this were to happen, Nest should be on the same commercial footing as other Master Trusts and without support from Government. There should be clear separation between workplace accumulation and decumulation services that Nest offer and any decumulation offer should be supported with a cost-benefit analysis which underpins their rationale.
147. Overall respondents were wary on stimulating decumulation-only CDC given the current level of evidence that it will bring better outcomes for members, and if this were to be shown that stimulating through Nest would not be necessary as the market would develop on its own. The policy objective should be focused on member outcomes rather than a product and setting out the framework for decumulation-only CDC as early as possible would be helpful so that interested schemes could assess whether they are commercially viable.
148. However, there were some respondents who were great supporters of decumulation-only CDC and the benefits it has been shown to bring, although communication to members was highlighted as particularly important. These respondents also thought Nest could be best placed to stimulate the market or be seen as a 'default provider' and that it would not have a massive impact on market structures given the difference in target market between Nest and schemes with larger pots.

DWP view

149. DWP welcomes the responses to this particular question. We recognise Nest is in a unique position, is supported through a government loan and has evolved and continues to evolve since its inception. It is now the largest Automatic Enrolment provider and Defined Contribution Master Trust, and any decisions will need to be impacted alongside the concerns of the industry.
150. DWP recognises from the responses that there is broad support from the industry that Nest should be allowed to extend the products it currently offers to its members. This would ensure fair treatment and equality with members in other schemes. However, some responses have questioned whether products should be offered directly or via a third party or partnering arrangement. We have also noted some concerns that Nest members should not be placed at an advantage or disadvantage with members in other schemes and there are some concerns about subsidy control.
151. We believe Nest should be able to expand on the products it offers to its members at decumulation stage, and a duty will be placed on it to offer a range of decumulation products to its members at the point of access. However, we also need to recognise concerns about market distortion, subsidy control and the Government will consider if additional controls are necessary for example restricting Flexible Access Drawdown (FAD) to active members and restricting transfers into the Nest scheme in order to benefit from the products on offer. We will work with Nest and the wider industry to ensure that Nest's decumulation offer has its members interests at its heart but that the commercial proposition takes into account wider market impacts. This will include considering cost to the members, value for money for the members and value for money for taxpayers and may include constraints on the extent of the offer.

Chapter 10: Conclusion

152. There was strong agreement from those who responded to the consultation that there is a role for trustees in decumulation and similarly, that the only way to make a real difference is through legislation.
153. Where there was less agreement was in relation to the use of defaults and the role CDCs can play in these. That said, the principle of providing support and products was accepted by the majority, the differences were about how this could be delivered.
154. DWP strongly believe the measures outlined previously in this consultation response are, at this time, the most appropriate to secure a strong later life for occupational pension members.
155. These measures are:
- At the earliest opportunity place duties on all trustees of occupational pension schemes to offer a decumulation service with products to members at the point of access at an appropriate quality and price.
 - Require schemes to devise a backstop default decumulation solution, based on the general profile of their members, that a member would be placed into if they access their pension assets without making an active choice on how to access their pension funds (e.g. simply taking the tax-free cash lump sum). Again, this could be achieved either directly or in partnership with another organisation(s). Allow partnership arrangements with no limitations in order to provide an extensive range of services to members.
156. By giving individuals an opportunity to access decumulation products regardless of the scheme they are in and their level of engagement, we will support individuals to optimise their pension assets for later life income.
157. In the meantime, we will encourage schemes to voluntarily to develop a decumulation offer or enhance their current services. To support this TPR will bring forward interim guidance to show how the objectives of these policies can be met without legislation, and to encourage innovation."
158. It is the intention of DWP to continue to monitor the effectiveness of these measures and continue to review the potential for CDCs to feature more significantly in the solutions being offered. We see the measure of success of anything DWP or schemes do to be that members are benefiting from measures that are meeting their needs.
159. DWP will monitor, with industry and consumer representative groups, the range of products and services being offered and whether these are giving members what they need. With the intention to consider, if in the future, there is a need to adopt a more prescriptive approach to that set out in this consultation response.

Annex A: Respondents to the Consultation

The following were respondents to the July 2023 consultation.

ABI	Interactive Investor
ACA	ISIO
Aegon	ITV
Age UK	Just Group
Age Wage	Legal & General
Alliance Bernstein	Lane, Clark, and Peacock
APL	MaPS
AON	Mark Ormston
Aviva	Mercer
Barnett Waddingham Summer	M&G PLC
First Actuarial	Nat West
Black Rock	Nest
Bristol University	NOW
Capita	Pace
Chartered Institute of Payroll Professionals	PASA
CMS	PMI
Eversheds Sutherland	People's Partnership
FCA Practitioner Panel	Pheonix Group
Fidelity International	PLSA
FSCP	Quants Consulting
Chris Giles	Railpen
Gowling WLG	Royal London
Graham Phillips	RSA
Hargreaves Lansdown	Sacker & Partners LLP
HSBC	Scottish Widows
Hymans Robertson	Seagreen
ICAEW	SMART
IFM	Socius
IFoA	SPP
Investment Association	Squire Patton Boggs
Investment and Life Assurance Group	St James's Place
TISA	Which?
TUC	WTW
USS	XPS
Winterbourne Trustee Services	Zedra