



**Response by TISA to:
Helping savers understand their pension choices**

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry**. We have **over 240 member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.

Executive Summary

TISA welcomes the opportunity to respond to the DWP call for evidence - Helping savers understand their pension choices.

We have seen considerable change in the decumulation landscape since Pension Freedoms were introduced in 2015. Whilst the increased flexibility has been largely welcomed, it has exposed consumers to greater potential risk, notably with regards to income sustainability and appropriate investment selection. It is crucial that consumers are supported with a robust guidance and advice framework, so they are equipped to make informed decisions throughout their retirement journey.

Members of all ages need more than information to engage and be equipped to make good decisions. TISA 2021 research reveals that millions of people in the UK would benefit from a much wider range of support services to make informed choices about their savings and investments. But that support would need to be personalised for the industry to have any real chance of achieving meaningful engagement with consumers – information alone is not enough.

Although pension savers are not a homogenous group, they are all exposed to the same risks and have the same requirements irrespective of the regulatory regime their pension pot is governed by. We strongly advocate an alignment in the timing and content of mandated communications across DWP and FCA pension schemes so consistent outcomes can be achieved. We further believe this exercise would also provide the opportunity for a fundamental review of these communications, as they do not engage the typical saver and are often misunderstood or ignored.

As Value for Money becomes embedded in the governance framework, we would expect decumulation options to form part of the holistic assessment over time. This would seem a more appropriate way to measure any consumer detriment caused through restricted retirement options within certain schemes, rather than mandating that all schemes provide all options.

The road through retirement is complicated and at present, there is insufficient support available or provided to help savers navigate through this journey. Decumulation requirements will be personal to an individual and priorities will change as ageing occurs. With the addition of cognitive decline, this means that there is a very real risk that savers will not get good outcomes without further help. We do not necessarily think that product innovation is required given that products exist which provide guaranteed income and flexibility. However, the decisions on when to access these and how much to invest are the challenges that need to be overcome.

We would be pleased to provide further input into all ongoing work that will be undertaken in helping savers generate good retirement outcomes.

Question responses

List of questions for members

Q1a. Do you feel that the information you receive from your pension scheme is enough for you to make informed decisions about using your pension savings, and if not, what do you think would have helped?

Q1b. Do you feel that this information is clear and concise, and if not, how could it be improved?

Q2. As an occupational pension saver, do you expect your pension scheme to offer you guidance and support on the options available to you when accessing your pension, and if you do, what do you think that should look like?

Q3. Thinking about other potential sources of information and support, aside from your scheme, who do you see providing these and what do you expect from them?

Whilst this is a section for scheme members to complete, we believe that these questions cover a lot of ground and are more appropriate for engaged and informed individuals, rather than the typical member. More beneficial and meaningful insights are likely to be gathered through more research and roundtable events, which feature a broad cross-section of pension savers.

List of questions for schemes

Q4. What information does your scheme currently provide to its members in the run up to retirement? When and how do they receive this?

N/A – individual providers will include in their respective responses

Q5. If your scheme has received any feedback from members, or has results from any ‘test and learn’ activity relating to pre-access communications, what have you learned?

A recurring theme where an individual’s membership spans both occupational and contract-based schemes is why are they receiving communications, essentially covering the same approaching retirement information at different ages/times and wouldn’t it make more sense for these to be sent at the same time?

Q6a. What information do members need in the run up to retirement such as from age 40-50?

More generally, members of all ages need more than information to engage and be equipped to make good decisions. TISA 2021 research reveals that millions of people in the UK would benefit from a much wider range of support services to make informed choices about their savings and investments. But that support would need to be personalised for the industry to have any real chance of achieving meaningful engagement with consumers – information alone is not enough.

The financial services industry is currently restricted from utilising the personal circumstances of a consumer when issuing financial guidance, whether that be an alert, prompt, nudge or the provision of information deemed most useful. This means consumers, particularly those occupying the UK's "Advice Gap" are missing out on well needed engagement.

Not only does industry want to solve this problem for consumers, but there is also strong interest amongst consumers for their product providers, banks and building societies to make better use of their data – whether it be data the consumer were to input via a tool or the data that the product provider knows about them already. Consumers welcome the idea of their data being used, especially to make better savings and investments decisions quicker and easier for them. Consumers would like more personalisation and they have sufficient trust in their product providers to make the best use of technology and data. These are findings that we have uncovered from our latest research.

Typical questions that firms struggle to answer given the advice/guidance boundary issues include:

- I've moved employer, should I consolidate my pensions, what are the pros and cons?
- Should I contribute more to my pension?
- Should I contribute more to my pension or my ISA?
- Where should my pension be invested? Should I stay in my default fund or choose my own?

It could be argued that the glidepath to retirement starts from the very first pension contribution and that is an important engagement point as the benefit of compound interest is at its greatest. Communications at key stages throughout a pre and post retirement journey are important, with different messages delivered at different times.

We believe the mid-life MOT which is currently being worked on by government has a strong role to play in helping individuals evaluate their general wellbeing. It is important that communications for this age group provide an expectation of the expected retirement outcomes that could be achieved based on their current trajectory. There is still time for individuals to make changes which can have a significant impact on retirement outcomes but it needs to be framed in a way which is relevant to them. Whilst illustrations provide this information, they are not in a user-friendly format and are typically ignored or misunderstood.

The medium in which they are provided and style/content will play an important part in the engagement process, with digital communication being the most effective method for an ever increasing percentage of pension savers. This provides the opportunity for dynamic communications, with potential links to guidance tools which cannot be replicated by paper.

However, whilst schemes want to do more for their memberships and provide links or nudges to guidance and advice services for example, they are obstructed from doing so by the Information Commissioner's Office (ICO) and the Privacy and Electronic Communications Regulations (PECR). The pensions and wider financial landscape is in a constant state of change and it is important that regulations do adapt to meet these demands, allowing innovation and change to benefit consumers whilst maintaining the fundamental protections (if still appropriate) they were designed to provide.

For this age group, learnings should be taken from the FCA wake-up journey which has introduced an increase in frequency and a simpler format.

Q6b. What information do members need from age 50?

Whilst still in the accumulation phase, perhaps for another 10 years or more, it is important members do start to consider their retirement and what they want to achieve. From approaching age 55 (currently), they will receive a wake-up pack which clearly shows their fund value and that it is now accessible. For many, this will act as a prompt to withdraw money – typically tax-free cash. Research from a TISA member shows that age 55 is the modal age for initial access. It is therefore important that communications to savers in their early 50s clearly states that access does not have to start from age 55 and possibly outline some of the generic tax advantages that keeping it in a pension could have. Whilst MoneyHelper would provide this sort of guidance, we know that only a low percentage of scheme members positively act on the nudges that are delivered.

Approaching retirement communications are heavily regulated in terms of content, which is why they are so large in size. Consequently, this is a reason why they are not often read in full or understood. The FCA introduced the single page summary which is an improvement however the content is still framed in a way which does not promote engagement. Whilst consumer protection cannot be undervalued, we need to consider an overhaul of the whole communication process to make it engaging and relevant, rather than a compliance tick box exercise.

Q7. What other support, aside from the information you have already told us about, does your scheme currently provide to members

N/A – individual providers will include in their respective responses

Q8a. What income options or products, if any, does your scheme currently offer members when accessing their pension savings?

At a high level, whilst flexible decumulation options (Drawdown/UFPLS) are prevalent within contract-based schemes it is a very different picture for occupational schemes. The typical single employer trust will not operate an in-house Drawdown proposition and to do so would probably result in a rise in costs for members, which may then impact on the Value for Money assessment and especially if the assessment is extended to decumulation. We are seeing an increase in the availability of Drawdown offered by Master Trusts in their respective propositions.

Q8b. Do these options or products differ depending on pot size?

N/A – individual providers will include in their respective responses

Q9. If your scheme offers lifestyle strategies or a pathways type solution for decumulation, what take-up have you seen?

We have received anecdotal evidence from our members that for workplace schemes, the take-up has been reasonable, however for SIPPs, it has been minimal.

This is not unexpected given the difference in the typical consumer for these products, ranging from the unengaged for workplace schemes to fully engaged and/or advised for SIPPs.

Q10. If you have already introduced income options or products such as investment pathways, have you received any feedback from members, or conducted research to assess their effectiveness? If so, what conclusions did you reach?

N/A – individual providers will include in their respective responses

Q 11. Should Nest be able to deliver the full range of income solutions for members unwilling or unable to access decumulation options without support?

We are unsure what is meant by ‘full range of income options’ but consider to this to mean flexi-access drawdown. Additionally, we would query why they should only be available for Nest members who are unwilling or unable to access decumulation without support – surely these options should not discriminate and be available to all members.

There are two key aspects to consider when answering this question.

First and foremost is from the consumer perspective. Nest anticipates a membership of 1.75 million aged 55 or over by 2025 and the average current fund value is circa £1,750. Whilst Drawdown may not be suitable for all those who have reached NMPA, for many this may be the preferred option and provides greater flexibility than their Guided Retirement Fund. Currently, any member wishing to access Drawdown/tax-free cash needs to find an appropriate provider and then arrange a transfer often incurring new start-up charges. This cannot be considered a good customer outcome and we believe legislation should be changed to enable Nest to offer Drawdown to all of its members, whether unwilling or unable to access or not.

Secondly and not mutually exclusive to the above, Nest operates very differently to the rest of industry. It is funded by the Government, who will cover losses and ensure it does not fail. The market pressures and restrictions which apply to other providers, do not apply to Nest. If we are to level up the playing field in terms of the enablement of additional decumulation options, we need to level up the playing field from this perspective as well. Nest will need to act more like a commercial organisation, become part of a fair and functioning market and be comparable the rest of industry e.g. operating a fee structure which is broadly comparable to market average.

There are other benefits which could also be achieved if Nest is able to offer drawdown. Firstly, it may significantly reduce the number of smaller transfers for the purpose of flexible access - providers do not generally have much appetite to accept small transfers in from a commercial perspective.

Secondly, UFPLS is often associated with creating the behaviour of taking out large chunks at a time or cashing out completely. The addition of Drawdown to Nest will help mitigate this and more generally, it enables government to consider whether it is now time to remove UFPLS as a decumulation option. It was originally designed to enable firms to offer a decumulation option in the absence of a Drawdown proposition, however firms have now had plenty of time to develop a proposition or approach. As mentioned, UFPLS is not generally regarded as an approach to generating a steady income stream and encourages withdrawal behaviour which is unsustainable. FCA retirement income data shows that in 2020/21, out of nearly 600,000 pots that were accessed for the first time, only 28,000 were a partial UFPLS whereas 166,000 pots were accessed through partial Drawdown.

Q12. What products or lifestyle strategies should providers give?

Schemes should not be obligated to offer all products. Some will specialise in a particular product or area to ensure those who choose that option receive good consumer outcomes. Providers are guided by what their customers want and will adapt to meet that demand which may include partnering with Drawdown providers. Mandating products runs the risk of providers not having the specialist knowledge to implement and run the proposition effectively, adding significant cost and resource which may be passed onto the consumer and generally goes against how a free and competitive market should operate.

We have recently seen the introduction of the new Value for Money requirements and propositions will be holistically assessed within this governance framework to ensure they produce good consumer outcomes. Whilst this currently focuses on accumulation, we would expect this to expand to include the transition to decumulation over time.

There are considerable challenges associated with any form of default decumulation proposition. In accumulation there is one beneficial outcome – build the biggest pot possible. This means a default investment approach works well in principle as there is a common objective for all.

For decumulation, the journey is much more personalised with different options appropriate for different individuals at different times. This means it is not possible to design a default which will be appropriate at scale.

It is difficult to predict what your income requirements will be in 5 or 10 years time. As old age approaches, requirements can vary significantly in a short space of time. Whilst it might seem appropriate at age 60 to lock in an annuity purchase at age 70, if health deteriorates significantly in that period, an annuity may no longer be appropriate. Or perhaps an enhanced annuity would provide a good outcome but that needs to be individually underwritten just prior to purchase. Whatever default journey is put in place, the individual (or their decision makers) need to remain engaged to ensure it remains an appropriate course of action and does not cause detriment. It is not possible to ‘set and forget’ in decumulation.

There has been a recent strong regulatory focus on the years approaching and at retirement, including the addition of risk warnings, nudges to MoneyHelper and Investment Pathways. However, there has been little focus on those navigating their way through retirement. We strongly believe there is scope for more support to be given to those who are going through retirement. Retirement is often considered a game of two halves – an active earlier retirement which requires flexible retirement options and later retirement being slower in pace with the need for guaranteed income increasing and the potential introduction of later life care costs. It is very hard to know when the transition starts, especially for those going through it and as cognitive abilities decline with age, support is crucial for this group.

Engagement and more communication is paramount. We have a mid-life MOT so we could consider a mid-retirement MOT. There is no silver bullet but this is a large and important area to focus on. We believe it warrants further research and industry workshops to establish the most effective ways to support this increasingly large cohort.

Q13. If you don't provide this, why not?

N/A – individual providers will include in their respective responses

Q14. How could CDCs work in practice in the DC decumulation market?

We are unsure if this is considering a decumulation only CDC product or looking at how CDC would work as part of an accumulation and decumulation CDC framework.

Either way, the challenges, risks and opportunities are complex in nature and cannot be objectively outlined or considered within the scope of this consultation. We believe a CDC consultation is due later in the Summer and would recommend this is included within that larger scale exercise.

Q15a. How do you envisage the decumulation landscape in the trust-based pensions market developing?

With the advent of Auto Enrolment, it is not unusual for savers to have pension benefits in occupational and contract-based pension schemes. From their perspective, it does not matter which regime the scheme is governed by – they are exposed to the same risks and opportunities in both. As such, it is crucial that the mandated communications which members receive as they approach retirement are aligned to ensure everyone receives consistent outcomes. Whilst it has been mentioned there are reasons for divergence, we do not see these evident from a consumer perspective.

We would expect to see ongoing consolidation as the Value for Money requirements nudge the winding up of smaller schemes into Master Trusts and Group Personal Pension schemes. We may also see more single employer trusts partner with a Drawdown provider, to improve the decumulation journey for their members.

Q15b. Is your scheme planning to make any changes to your decumulation offer in the future?

N/A – individual providers will include in their respective responses

Q16. In your opinion, would a structured solution in the style of investment pathways benefit members with trust-based pensions, and why?

We believe Investment Pathways would be effective for occupational Schemes used for Auto Enrolment as the typical non-advised scheme member is not particularly engaged. We have anecdotal evidence from members which show a reasonable take-up for Group Personal Pensions and there is no reason to see why this would be different for their trust based equivalents.

Q17. If the government placed requirements on trustees to implement investment pathways, what would this mean for your scheme and a functioning competitive market?

N/A – individual providers will include in their respective responses

Q18. If you have introduced investment pathways, what is going well and/or what challenges are you encountering?

N/A – individual providers will include in their respective responses