ASSOCIATION OF CONSULTING ACTUARIES

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25 July 2022
Abigail Coskun
Department for Work and Pensions,
Caxton House, Tothill Street
London SW1H 9NA
caxtonhouse.retirementdecisionscallforevidence@dwp.gov.uk

Dear Abigail

Call for evidence: Helping savers understand their pension choices

I am writing on behalf of the **Association of Consulting Actuaries** in response to the above call for evidence. Our answers to your specific questions are set out on the following pages. Note that we have responded to the "questions for schemes" rather than the "questions for members".

We are encouraged to see the Government review how savers can be better supported in understanding their pension choices. Our key points are:

- To achieve the goal of helping savers understand their pension choices, it is critical to go beyond the period pre-retirement in order to engage individuals throughout their journey, including when in education before entering work, and post-retirement. Providing information and support (however well-designed and delivered) only around the retirement point will fail if engagement has not been built and maintained throughout.
- The majority of members of occupational pension schemes are invested in a default investment strategy during the accumulation phase and can be part of a scheme without ever needing to make a single active decision on investments or benefits. The at-retirement and decumulation world marks a significant departure from this arrangement. We see key roles for CDC schemes and low cost, transparent, and easy-to-manage income drawdown products to better support individuals, including potentially via "default" decumulation pathways with similar goals to the FCA's investment pathways.

We trust that you find the contents of this response of assistance. We would be happy to discuss our response further if that is helpful. In that event, please contact me on 07557 031198 or at tessa.page@mercer.com.

Yours sincerely

Tess Page, Chair, DC Committee
On behalf of the Association of Consulting Actuaries Limited

ACA response to the call for evidence on helping savers understand their pension choices

Consultation "questions for schemes" (numbering follows the consultation format)

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

Colleagues at our member firms advise both trust-based and corporate clients, and some of our firms also provide master trust products.

There are regulatory requirements for certain communications to be provided that apply to different scheme types, which we do not list here, but our experience is that the statutory requirements are met, and then in many cases supplemented by additional support material.

This additional support varies significantly by scheme but can include:

Information type	**Comment**
Educational content including retirement booklets, factsheets on different options, and videos	Typically web-hosted material
Pre-retirement webinars and / or in-person workshops	Typically larger employers / schemes with engaged decision makers and suitable governance and cost budgets for communications
Pre-retirement nudges, wake-up packs, and reminders	A suite of communications that may start from up to 10 years before minimum pensions age and in many cases is linked to the length of the default investment lifestyle de-risking profile (where such a profile is in place)
In-app nudges and reminder	Typically "newer" schemes and / or master trusts where the digital experience is a key part of the overall proposition
Access to guidance and advice	Some schemes support members by paying for or towards the cost of personalised guidance and / or advice. This may be via a "preferred" firm or panel of advisers.

We do note that the level of support can be very variable across schemes. For example:

- Different trustee boards and employers have different priorities (for instance, own trust hybrid schemes with a large DB section and smaller DC section may still focus governance time and effort on their DB section).
- Contract-based pension schemes generally have less flexibility around the timing and content of communications, meaning that they can be more "compliance based" and less engaging – this is evolving but employers are often frustrated by the lack of flexibility.

5. 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?

The ACA does not have direct interaction with pension scheme members but at a consulting level across our member firms, we note that monitoring of member feedback by trustee boards and governance bodies has typically focused on the pre-retirement experience, although increasingly we see survey being used at the point of taking benefits or soon after.

Where individual schemes have carried out member surveys seeking specific feedback on communications, general themes include:

- Challenges with the volume of material – this has often been developed with the best of intentions, but may have mushroomed over time
- Consistency of language and format of pre-retirement communications across different schemes is a problem. A typical individual may have legacy DB benefits, one or more DC pots, their State Pension, and potentially a private personal pension. Each of these arrangements will use slightly different language, the material will arrive at different times and in different formats, and the rules around when and how benefits can be taken will differ.
- Where personalised guidance and / or advice is offered and used, this is highly valued.

6a. What information do members need in the run up to retirement such as from age 40-50?

It is crucial that this information is part of a holistic approach that starts from when a member joins a scheme – engaging "cold" from age 40 will not maximise engagement or understanding.

At the most basic level, members should be provided with details of the options available to them under the scheme together with a recommendation that they take guidance. Additional information provided to this cohort should be a continuation of support and messaging which commences the day they join the scheme. The areas below are of particular importance:

- Clear **signposting to educational material and scheme-specific literature**, presented in an easy-to-follow way.
- Confirmation of **current savings value and projected benefits** at retirement (understanding "am I on track?") – this will be provided via annual benefit statements, but online tools allowing individuals to model different options can be very valuable.
- **How much will the individual need in retirement?** The PLSA Retirement Living Standards are a helpful reference point in this regard.
- **The impact of saving more –** for this cohort, who may have many years to go until taking benefits, messaging should not neglect the power of increasing contributions where this is appropriate for the individual's circumstances.
- **The importance of the target retirement date.** Typically, members can access their pension from age 55 (rising to 57 in 2028). For individuals in DC schemes invested in a lifestyle or target date strategy, de-risking will begin based on the member's recorded target retirement date, and as such it is critical that this reflects the individual's intentions.
- Information on how to **avoid scams** – this cohort may be a particular target for scams based around "get access to your pension early".

6b. What information do members need from age 50?

Building on the above, additional information is required in relation to:

- **The detail of retirement options** – when and how benefits can be taken, including taxation issues and "how to do it in practice".
- How to access **guidance and advice.**
- Messaging around **finding / keeping track of old pensions.** Taking benefits from one scheme may have knock-on impacts elsewhere in terms of taxable allowances, etc. Members should be reminded to keep on top of all pensions and to consider their retirement plans holistically rather than through a single scheme lens. Pensions dashboards will help with this.

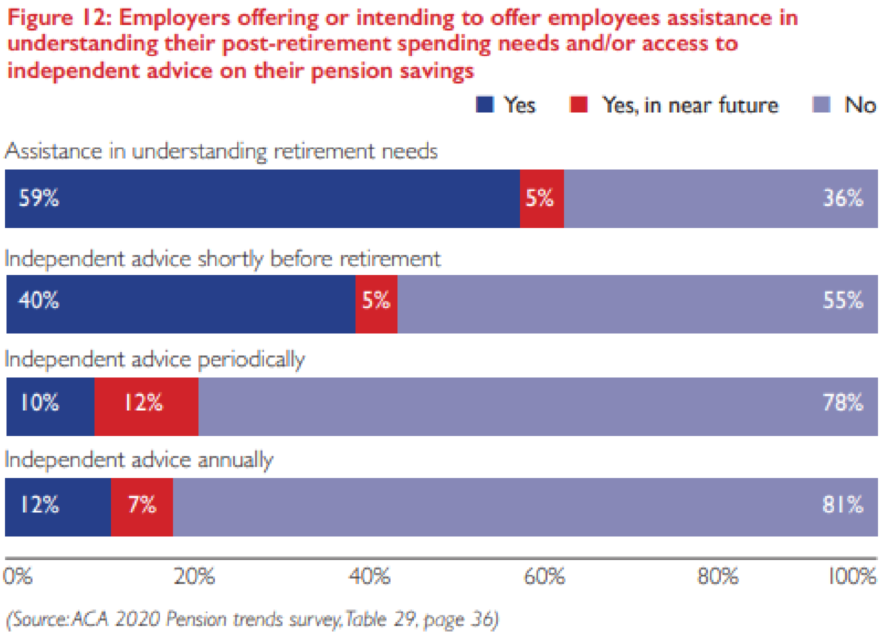
- **Appropriate risk warnings** including safeguarded flexible benefits risk warning (pensions with income guarantees for example).

7. What other support, aside from the information you have already told us about, does your scheme currently provide to members at the point at which they access their pension and after they have accessed their pension?

Our experience is that this is very variable by scheme type:

- For trust-based DC schemes, once the member has been through the "retirement" process and accessed benefits, very typically any further communication ceases. This is in part because very few trust-based schemes offer in-scheme drawdown.
- For master trusts and contract-based schemes where in-scheme drawdown (or access to drawdown via the same platform) is offered, once a member enters drawdown ongoing communication will generally include a suite of online support (including personal details of the individuals savings value, investment choices, etc), access to a helpline, and annual statements.
- For schemes that offer non-advised drawdown or transfer to such arrangements: investment pathways information.
- For DB and hybrid schemes where individuals have DB benefits in payment, members may receive ongoing support and information around keeping beneficiaries up to date, scheme newsletters, etc.

The following graphic from the ACA's Pension Trends Survey[1] summarises employer intentions on support provided for members.



Finally, we also highlight the previous work undertaken by TPR as a valuable summary of current practice as part of its response to the call for input on the consumer pensions journey[2].

8a. What income options or products, if any, does your scheme currently offer members when accessing their pension savings?

In a DC context, our experience is that master trusts and contract-based schemes will typically offer the broadest range of options, encompassing:

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[1] https://aca.org.uk/wp-content/uploads/ACA-Pensions-Build-back-better-2020-Pension-trends-report-final.pdf

[2] TPR feedback statement

- UFPLS
- Cash
- Annuity broking
- Income drawdown
- Potentially a wider range of non-retirement related products (e.g. ISA, JISA, range of open market savings and investment products)
- Access to various levels of guidance including full financial advice options.

Own trust schemes generally offer access to cash withdrawal (but not on a long-term drawdown basis), annuity broking, or transfers to other arrangements to access income drawdown.

Whilst we expect that the focus of this question is on DC schemes, it is worth noting that a number of DB schemes quote transfer values within the retirement packs provided to members prior to retirement, and may also offer access to an IFA service.

8b. Do these options or products differ depending on pot size?

Yes, notably small lump sums are only available to those with a pot of no more than £10,000 and annuity purchase will have a minimum fund level. Certain providers will also only offer drawdown above a minimum level of savings pot, typically £30,000.

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

No response – even where our member firms advise schemes that offer this, the solution is relatively new and as such we have no meaningful statistics to share.

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

Whilst we do not have member-level feedback, we highlight that the ACA's Pension Trends Survey[3] identified that 62% of employers agreed that more flexibility in savings and retirement options would result in a net increase in individual savings.

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

Yes, we believe that NEST should be able to deliver the full range of income solutions to this member segment.

12. What products or lifestyle strategies should providers give?

Clients of ACA members (trustees and employers) value flexibility across product types and investment options. However, it should be recognised that many pension savers do not engage with their pre-retirement investments / other retirement planning, and find retirement options confusing. We therefore support the continued use of default arrangements for investments (including post-retirement pathways).

[3] https://aca.org.uk/wp-content/uploads/ACA-Pensions-Build-back-better-2020-Pension-trends-report-final.pdf

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

N/a.

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

We see an attractive role for CDCs in the decumulation market.

Most individuals value an income for life in retirement, but based on the latest FCA retirement incomes analysis[4], annuity purchase continues to decline, to around 10% of pots accessed. This suggests savers don't wish to pay a premium for the guaranteed income an annuity provides and / or place a higher value on "cash today" when it comes to making decisions.

However, income drawdown, which may appear to individuals as the only affordable way to access an income in retirement, requires savers to make complex decisions as they balance the pace at which they take their savings against uncertain life expectancy (in many cases after making almost no pensions related decisions throughout their pre-retirement journey).

The average 65-year-old today is expected to live to 86, but with a 50% chance their actual lifespan could fall somewhere within a 13-year time frame (80 to 93). This means that budgeting for uncertainty is a material challenge.

We believe that CDC can help provide an efficient way to turn a savings pot into income, through more efficient investment strategies with a higher risk budget than the typical annuity provider, without the individual member risk of running out of money in drawdown.

CDC need not be an 'all or nothing' option in retirement – rather, we see CDC complementing existing decumulation solutions. To give an example:

- Savers could take 25% tax free cash
- Then use a proportion of their pot at retirement to buy a CDC pension to supplement their state pension with an income that last until the day they die, without having to make complex decisions (providing a base level of guaranteed income)
- Invest the remaining proportion of their pot into income drawdown, to provide flexibility in later life / inheritance benefits.

Clearly, CDC will not suit all savers – for example those with low levels of savings may prefer to cash out their smaller pots at retirement (and rely primarily on the state pension) and those with high levels of wealth and financial literacy may prefer full drawdown if they expect less reliance on their pension savings (or perhaps have substantial legacy DB benefits), given the inheritance benefits this could provide.

15a. How do you envisage the decumulation landscape in the trust-based pensions market developing?

Our expectation (and hope) is that a broader range of simple, low cost drawdown products will emerge as decumulation assets reach scale and the market becomes commercially appealing to providers.

We would also support a similar framework for cost and charge disclosures as operates for occupational schemes pre-retirement, as one of the barriers to access, and an area where there is a

[4] https://www.fca.org.uk/data/retirement-income-market-data-2020-21

risk of value erosion, relates to mixed reporting of costs and charges across the income drawdown market.

We also see a key role for CDC schemes in decumulation (see question 14).

This is an area of priority for the ACA's DC Committee and we would be keen to discuss ideas with the DWP.

15b. Is your scheme planning to make any changes to your decumulation offer in future?

N/a.

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

Investment pathways were established to address the issue that many non-advised individuals did not wish to make investment decisions or were not engaged enough to do so. By presenting the post-retirement investment decision in terms of their benefit choices, investment pathways were designed to help consumers to be able to more easily select an appropriate investment.

The majority of members in trust-based pension schemes are invested in a default investment arrangement during the accumulation phase – with no need to for them to make any active decision. We would support mirroring investment pathways arrangements post *retirement in principle* – to provide a member with a "worry free" post-retirement journey. Such an arrangement could also potentially mitigate the potential risks around mis-selling / poor advice. However, this would likely be a significant undertaking, as described in question 17.

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

Based on the schemes our member firms work with, there is rarely an in-scheme post retirement decumulation vehicle in place.

As such, the impact would require some substantial work – as a first step the trustees would need to engage a decumulation provider or consider how to implement in-scheme (which is likely to be a significant undertaking). There are also some concerns from trustees and employers about being seen to "recommend" a third-party product for decumulation.

The requirement would though likely spark innovation and competition from providers to partner with trust-based schemes to provide suitable solutions.

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

N/a.

Additional points not captured in previous responses – impact on smaller schemes

The initiatives introduced in recent years designed at improving governance and value of occupational pension schemes, with the aim of delivering better outcomes for members, have been positive and we value the work that the Government, TPR, FCA, and other bodies have done in this regard.

However, the implementation and ongoing delivery of these initiatives does not come without cost, and the cost can be disproportionate for schemes with smaller numbers of members. Whilst this may push those schemes to consolidators (in members' interests), this is not appropriate or

viable for all small schemes particularly SSAS (or quasi-SSAS, where all members would ideally be trustees, but cannot).
Therefore, we believe it would be sensible that any new initiatives should give consideration to the scheme size, either by membership numbers or asset size, with the simplest suggestion being to apply the 100 members exemption that exists in other aspects of the regulations.

Whilst the relevant small scheme SSAS exemption would certainly be welcome, it doesn't handle those quasi-schemes (for example former SSAS schemes that fail the exemption as a member cannot be a trustee due to dementia). If 100 members is too many then the 12 members as per SSAS, but not requiring that all members are trustees. This exemption would be to help those members of smaller (typically family-orientated) schemes, due to the disproportionate high cost for this size of scheme and the costs falling on the client which would reduce the value of retirement funds for members and make the cost of pension provision higher than it needs to be for that category of member.

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