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Jai Shah
Financial Conduct Authority
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25 June 2021

Dear Jai

SPP RESPONSE TO CP 21/11: THE STRONGER NUDGE TO PENSIONS GUIDANCE

We welcome the opportunity to respond to this consultation.

Key messages

We urge the FCA to consider the additional burden and cost imposed on providers to deliver a stronger nudge, particularly around the proposal that providers should book appointments for customers. We note that the current take up rate for guidance is around 3% and the FCA anticipates that if these proposals are implemented, the take up rate should increase three fold. That is still only 9% of consumers. Whilst it is a significant increase relative to the current rate, our view is that in absolute terms, the additional burden and cost imposed on providers as a result of the stronger nudge is disproportionate to the benefit to consumers.

We note that the consultation states that the FCA does not wish to impose additional burdens on Pension Wise and we do not consider it to be fair or reasonable to impose the burden solely on providers, particularly in light of our concerns about the anticipated absolute take up rate as a result of the proposed stronger nudge. Unless access to Pension Wise is materially improved, we consider that the stronger nudge will not work to deliver better outcomes for consumers.

Consequently we consider that a better approach would be to raise awareness of Pension Wise more generally (via mainstream and social media marketing campaigns). Raising awareness is, in our view the Government's responsibility and its failure to do so should not result in placing additional burden and cost on pension providers. If consumers are more aware of the services provided by Pension Wise, they are more likely to contact Pension Wise voluntarily, possibly at an earlier stage when they are still exploring their options and will be more engaged. This will lead to better outcomes for consumers without imposing significant additional burdens on providers through the proposed earlier nudge.

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Pension Wise is only available to consumers who are 50 and over currently so we expect that younger consumers are likely to be unaware of Pension Wise and/or the benefits of guidance. We therefore consider that if consumers had access to Pension Wise throughout their pension savings lifetime, they would be more engaged with Pension Wise and would have a better understanding of the benefits of seeking guidance, especially at an early stage. One option would be for the Government to introduce the opportunity for consumers to have a 'financial MOT', at the beginning of their pensions savings journey and/or at mid-life which may encourage consumers to engage more fully with their pensions. There is a lack of financial education amongst consumers who are often making fundamental and irreversible decisions about their pension savings. Consequently we would query if Pension Wise could be available to all pension savers, no matter their age.

Detailed Response

Q1: Do you agree with our proposed approach on the trigger for the nudge?

If there is an earlier nudge, we agree it would be sensible to include a transfer to a DC arrangement as a trigger.

Q2: Do you agree with our proposals to incorporate the delivery of the nudge into step 1 of our existing retirement risk warning rules?

We recognise that the vast majority of consumers do not engage with Pension Wise, at all or at an early enough stage. The delay in obtaining an appointment (we understand that currently it can take 2/3 weeks to get an appointment) is a fundamental part of that problem. Introducing the stronger nudge will only compound the issues with consumers being able to access Pension Wise in a meaningful, and thus engaged, way.

We consider that a better solution would be to require the receiving scheme and not the transferring scheme to give the nudge as the receiving scheme is more likely to know if and how the consumer intends to access his pension savings. Where consumers are being advised, we assume that they have had the 'nudge' and/or advice.

We note that not all consumers transfer to an FCA regulated provider; they may be taking a transfer to an occupational pension scheme or a Master Trust. Consequently, there would need to be some exceptions to cater for this scenario.

As noted above, we are also concerned about the timing of the Pension Wise appointment. and if there is a requirement for all consumers to have a Pension Wise appointment before accessing or transferring their pension benefits, this will result in substantial delays and frustration from consumers who are likely to see it as a block to them accessing their pension savings. Consumers are therefore less likely to engage positively with Pension Wise and may opt out of the nudge process purely to avoid delay. Is there any intention to provide additional resource to Pension Wise if the earlier nudge is implemented?

We also note that the draft Occupational and Personal Pension Scheme (Conditions for Transfers) Regulations 2021 include a requirement for guidance on the risk of pension scams in certain scenarios. This guidance will be delivered by the Money and Pensions Service and we consider that this requirement and the stronger nudge (if both are implemented) could be perceived by consumers as another barrier to them accessing their pensions savings and ultimately result in people saving less in their pension.

Q3: Do you agree the explanation of the nature and purpose of guidance does not need to be prescribed?

We are comfortable with this approach.

Q4: Do you agree with the proposed approach to appointment bookings and opt outs?

We consider that this will impose a huge additional burden on providers. Providers will need to build new systems to manage this requirement and keep appropriate records so there will be a substantial cost involved, which will ultimately be borne by consumers. There is a huge question about the potential benefit for consumers which we consider to be, at best, uncertain.

As noted above, we consider that it would be unfair and unreasonable to impose the burden solely on providers. In this context, we consider that in the dominant bundled model where the consumer pays all operating costs, the cost of introducing the stronger nudge, should not be shared with or absorbed by the majority of consumers who are unlikely to receive the stronger nudge.

We also consider it would be sensible for Pension Wise to confirm if the appointment had been attended. Consumers could say to providers that they had booked and attended a Pension Wise appointment even if they haven't simply to move onto the next stage of the process.

Q5: Do you agree that where a consumer has previously been nudged and has confirmed receiving Pension Wise guidance, they do not need to be nudged again, unless the provider has reasonable grounds to believe that the consumer could benefit from receiving guidance again?

We are concerned that the provider will not necessarily know if the consumer could benefit from receiving Pension Wise guidance again. The provider would need to obtain various details from the consumer and make a judgement on whether further guidance would be beneficial. Our view is that this places the provider more in an advisory role, which is not in their skill set or a part of their function.

Q6: We welcome views on what would be the most relevant data for us to gather, and the most effective and proportionate way for providers to gather and submit this.

We consider that in addition to recording the number of appointments booked, there should also be a record of the number of appointments attended and possibly the outcome of the appointment. This should be for Pension Wise to record. We also consider that it may be beneficial to record whether the consumer accessed his pension savings differently after taking guidance or decided not to access pension savings at that time and whether consumers made a different decision about transferring? However, this would naturally fall to providers and as noted above we have grave reservations about the additional burden and cost that would be placed on providers if the stronger nudge is introduced.

We noted that the proposed record keeping obligations only refer to providers and we consider that more onus should be placed on Pension Wise. For example, the provider could give the consumer's contact details to Pension Wise and Pension Wise could then contact consumer to make an appointment.

Will Pension Wise keep records and share data with the FCA and/or providers?

Q7: Taking into consideration the issues discussed in paragraphs 4.4 to 4.6, we would welcome views and any supporting evidence on whether allowing consumers additional time to consider the opportunity to take-up guidance could further increase/incentivise the take-up of guidance in a way that encourages them to engage with their pension access decision?

We consider that the proposal to allow consumers additional time to take up guidance which in effect would be imposed upon them (using a minimum time period or a break in the consumer journey) would not increase or incentivise take up of the guidance in a positive way. We consider that such a requirement could be detrimental to the consumer's experience. There is no legal requirement for consumers to take advice when accessing their pension via a regulated provider but this proposal would in practice introduce such a requirement. Pension Wise guidance is intended to be voluntary and the FCA's proposal removes the voluntary aspect of guidance in many respects.

Q8: If you think it would increase the take-up of Pension Wise guidance, we would welcome views on how an opt-out process could operate to further incentivise the take-up of Pension Wise guidance in a positive way?

Our view is that an opt out process is unlikely to operate to incentivise meaningful take up of Pension Wise guidance for the reasons set out in our response to Q7 above.

Q9: What would be the implementation challenges or unintended consequences with this approach and how could they be overcome?

We believe that consumers may be more reluctant to engage positively with Pension Wise. Instead consumers are likely to view any engagement as a barrier to them accessing their pension and as a tick box requirement.

Q10: We would welcome views on whether and how an additional earlier nudge to guidance could be introduced. Please include comments and evidence relevant to the factors listed in paragraph 4.11, as well as an indication of the likely costs and benefits

We agree in principle that an earlier nudge in the consumer journey might increase engagement with and take up of Pension Wise guidance. But this is linked with greater consumer awareness of Pension Wise and the benefits of guidance.

Our view however is that the introduction of an earlier nudge would involve significant expense on the part of providers – upgrading systems and processes to include the nudge, record keeping and the additional time involved in dealing with consumers seeking to access or transfer their pension savings.

Q11: We would welcome views and any supporting evidence on how else we might do to increase the take-up of Pension Wise.

As noted above in our key messages, we consider that it is necessary to raise awareness of Pension Wise amongst consumers and consider making it available to all pension consumers.

Q12: In this context, we would welcome views and any supporting evidence on what more we can do to support consumers to access the right information and guidance they need to help them make well informed decisions about accessing their pensions.

No comment.

Yours sincerely

Sharon Piert
Financial Services Regulation Committee, SPP

Fred Emden
CEO, SPP

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