

By email only: caxtonhouse.retirementdecisionscallforevidence@dwp.gov.uk

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Department for Work and Pensions
Caxton House
Tothill Street
London
SW1H 9NA

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

Executive Summary

We welcome the opportunity to respond to this consultation and support the overriding view of most respondents to surveys on this topic that individuals should expect to receive a level of help and support from their pension schemes when they wish to access their pension savings.

In fact, the main theme of our response is that a focus on decumulation is long overdue and builds on all the good work on accumulation in recent years (such as the automatic enrolment workplace pension reforms).

The detailed elements of our response, therefore, focus on creating a decumulation framework that is practical for schemes and providers and helpful to pension savers; in particular, our views around –

- helping a CDC-in decumulation market emerge;
- minimum decumulation requirements that trustees should put in place, and
- relevant factors when developing a decumulation offer.

Before turning to our detailed response, however, we must stress that, in our feedback, we have made a number of references to the role of NEST being extended to encompass decumulation offerings – specifically drawdown and, potentially, CDC. Our membership comprises a broad cross-section of the pensions industry. Through this we recognise that segments of the market will have justifiable concerns about such extensions, primarily from the perspective that NEST's unique funding arrangements will confer a clear and unfair commercial advantage. Our comments about

The Society of Pension Professionals
124 City Road, London, EC1V 2NX T: 020 7353 1688
E: info@the-spp.co.uk www.the-spp.co.uk

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being supportive of NEST's 'expansion' are therefore intended from the perspective of averting the possibility of market failure (or at least sub-optimal operation), leading to some members being denied access to drawdown/CDC providers, in the event that commercial providers are not prepared to offer terms, or only to offer terms that offer relatively poor member value (and therefore more rapid pot depletion). If a competitive and enduring market develops, in which no member is denied simple access to decumulation products via signposting and transfer, we see no reason why NEST's 'backstop' involvement would be necessary. We therefore believe that DWP will need to resolutely explore the extent to which traditional providers will wish to develop a market capable of serving all members before any decisions are reached about NEST's role.

Detailed Response

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

It should be borne in mind that fundamental scheme design, e.g. contribution levels and retirement options, is usually a matter for employers and (for Master Trusts) strategists and funders. All relevant parties to the Trust Deed and Rules will need to approve changes proposed by one of the parties.

Without sponsor/funder support, we assume, therefore, that some form of override on trustees is envisaged and, that being the case, there will need to be support for and protection of trustees; not least, ensuring that there is no perception that their determinations constitute advice. We expand on this in other questions, such as the minimum requirements that might be imposed on schemes.

Decumulation solution through Partnering

We believe that signposting a default drawdown provider falls within the current remit of trustee activities and responsibilities, therefore it should be up to trustees to determine suitable products. However, where any additional costs fall on the scheme, for instance, as a result of initial selection and ongoing reviews, discussions should be had with the employer, who will ultimately be meeting these additional costs.

Where members do not make a choice, or cannot be traced, the current situation is that schemes will retain those assets in the scheme indefinitely, making periodic attempts to trace and engage the member. Some scheme rules may set a maximum age by which a member must make a choice. So, an external default solution may be necessary for such unengaged members. For these members, the most important default outcome will facilitate future access to their pots without committing it to a specific income solution, or where members may prefer to combine two or more options from annuitisation, drawdown and (assuming that an adequate market develops) CDC. Assuming that scheme rules facilitate a default transfer, the selected partner would need to be willing to accept transfers in the knowledge that they will then need to spend time and money tracing and attempting to engage them. Even assuming that a market for such transfers emerges, the additional effort and cost of administering such an offering would likely adversely impact the terms members receive.

If the policy intention is to allow trustees to default members into decumulation solutions (without the member needing to make a choice, with the option to opt-out), it will be necessary to provide a robust legislative basis for the trustees to do this. As is alluded to elsewhere in this response, care needs to be taken with any 'default' whether available for selection by trustees to offer to members or presented to members by trustees. Just as with auto-enrolment (where more people are saving, but the amounts being saved are potentially reduced as the auto-enrolment contribution levels are perceived as sufficient), it is vital that all parties are informed of relevant considerations so informed decisions can be made if/as appropriate (defaults are great at providing a line of defence against poor outcomes but should exist side by side with engagement and wider support to provide optimum outcomes).

We would like to see a minimum standard for the provision of options for members at retirement.

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

Notwithstanding the empirical research around demand and better outcomes, it needs to be appreciated that the creation of this market is not going to be easy and Government needs to carefully consider the part it should play in encouraging a CDC decumulation market. It can certainly facilitate the natural creation of such a market - by setting the environment which allows such a market to develop organically and then letting market forces have their effect. As we detail below there are clear member needs that can be better met in terms of retirement income through new options, but having a requirement to offer/signpost something with CDC characteristics (which could include CDC) as opposed to a more rigid definition is likely to result in more innovation.

Clearly, legislation is needed that will allow CDC-in-decumulation offerings, and it would be helpful for the Government to set out a timetable for achieving this.

This may, however, not be enough. Scale is required but uncertain and, whilst re-emphasising our comments about NEST in our introduction, discussions may need to take place with schemes that already have that scale.

To get traction among other providers, there needs to be consideration of CDC as part of a default solution for other schemes – or at a minimum, the requirement proposed elsewhere in the consultation for all DC schemes to provide a pathway to CDC; consideration could also be given for tax incentives or Government loans to help seed the investment solution for potential providers. Other flexibilities should be considered - for example, by accepting that there can be an exit strategy for early entrants if commercial scale does not emerge as long as members are suitably protected (e.g. perhaps not materially worse off than if they had been in a drawdown product since retirement). However, ultimately, there may need to be an acceptance that it is unlikely to be in the interests of achieving commercial scale for there to be a multitude of undersized CDC-in-decumulation arrangements.

It seems more likely that in a typical single-employer DC arrangement, CDC-in-decumulation could be used only as part of a default solution to achieve the necessary scale; the risk of poor outcomes would likely be a concern for trustees in such a scenario.

Ultimately, we expect that CDC would form part of the pension flexibilities and so any at-retirement support offered by schemes will eventually need to incorporate CDC, for instance, signposting a CDC decumulation-only solution alongside a drawdown solution. If this is explicitly communicated to the market and schemes, this should help prospective decumulation-only providers demonstrate / be confident that there will be sufficient market scale, which is key in order for these solutions to operate in a commercially viable way and give schemes the time to upskill themselves on CDC.

Government must ensure that the independent financial adviser market is appropriately regulated and sufficiently developed to be able to advise retirees on the full range of options that might be expected to suit their retirement needs, including CDC. This will also require upskilling on CDC, with particular emphasis on the impact of scheme benefit design on member outcomes, i.e. the highest initial pension doesn't necessarily equate to the best overall long-term outcome for the member when key scheme benefit design elements are taken into consideration. Critically, it would also require them to be able to advise on any in-scheme solutions that exist, noting that occupational pension schemes are not products which are regulated under the Financial Services and Markets Act 2000.

We would add that Pension Wise advisers would need to be similarly equipped to provide generic advice on CDC and in-scheme options and that this will require significant upskilling. It will also be necessary to reconsider how Pension Wise nudges are adapted to deal with both external transfers to a drawdown (and/or CDC) provider and requests for in-scheme drawdown.

Some further observations, specifically on CDC, are –

- Optimal CDC scheme design is still evolving, and therefore, any legislation should encourage innovation rather than be overly prescriptive on the scheme design specifics. This, together with the authorisation and supervisory regimes, should provide the necessary protections to ensure any CDC scheme is fit for purpose.
- To ensure that binary retirement market choices do not emerge, CDC decumulation-only solutions need to be able to offer similar flexibility / choice for members, e.g. single life vs. spouses pension, death lump sums, mortality underwriting, guarantee / minimum term payment periods.
- Legislation is required for decumulation-only CDC schemes. There may be optimal solutions that can accommodate pooling of risk across both whole-life and decumulation-only, which would help generate scale. For example, a whole-life multi-employer CDC scheme that accepts transfers in (traditional DC pot) at retirement. Therefore, allowing this flexibility within the legislation for multi-employer CDC schemes could help facilitate decumulation solutions that DC schemes could utilise for members at the point of retirement (once the Government is comfortable that the necessary member protections are in place to enable CDC-in-decumulation to be marketed directly to individuals, for example, the necessary regulations around financial promotions).
- There should be flexibility to allow the development of solutions that share both investment and longevity risk across members e.g. Royal Mail style CDC, but also solutions that only share longevity risk. We believe this could still fall under the term “CDC”.
- Incentivising and protecting the first generation of members will be key to the ultimate success of any decumulation CDC solution. To provide sufficient confidence to the first generation of members in a decumulation CDC scheme, there could be innovative solutions using external capital providers similar to DB superfunds.
- If considered necessary, an additional layer of protection could be a government-led CDC fall-back.

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

We do not believe that trustees of single-employer trusts should be forced to offer any specific ‘in-scheme’ decumulation option; other than perhaps the option to take *at least* one-off lump sums (UFPLS). Members (especially those with higher pot values) would benefit from the option to take multiple UFPLS, for example:

- to avoid overnight pot depletion
- for tax planning purposes
- to enable 'patient decision making'.

We, therefore, recommend that consideration is given to how to persuade or compel sponsors and trustees to offer more than one UFPLS, subject to sensible limits, e.g. on frequency and amount.

We believe that commercial Master Trusts and other DC providers should be required to offer the full panoply of Freedom and Choice options (again, subject to sensible parameters relating to frequency and pot size). The efficiency (e.g. operational friction and ongoing charges) with which they do so should, in due course, become part of the value assessment.

We offer no opposition to the suggestion of NEST being able to create a CDC pension scheme and, thus, the role of NEST being extended. That said we note as per our Executive Summary that

concerns around competitive advantages exist in relation to NEST and care should be taken to ensure that NEST is seen as an option that can be used as opposed to the only option.

Please, also see the response to question 1, in which we emphasise that trustees are not empowered to make unilateral changes to the Trust Deed and Rules.

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

Different types of schemes will require different solutions.

For commercial Master Trusts, a number of the factors listed below will need to be taken into consideration in conjunction with an ongoing financial sustainability analysis. Here, however, the drive to provide a full suite of flexible decumulation options will come from the Funder and Strategist, primarily in order to achieve commercial objectives, e.g. to improve product attractiveness relative to peers, to drive sales and to retain customers and assets. The conditions, barriers, costs and charges etc, related to the proposition should be set out in their Business Plan updates to TPR.

In no order of importance, the factors which should be taken into account will include:

- The alignment of sponsor and trustee preferences
- Size and maturity of the scheme (as a proxy for whether to develop in-scheme solutions or to outsource)
- Member profile (in particular numbers and pot sizes)
- Administration capability and costs to sponsor and members
- Regulatory status/authorisation
- Costs and charges
- Reputation of an outsourced provider (for member reassurance)
- Provider longevity
- Financial Strength of funder/provider
- FSCS protection
- Investment offerings
- Transition experience for members (i.e. transfer process and efficiency)
- Retirement planning and management support tools for members
- Regulatory and liability risk of outsource partnerships
- Contact options and support
- Complaints MI and/or member advocacy
- The availability of 'safe harbour' partnerships
- Availability of an annuity broking service (if applicable)
- Access or encouragement to scheme members to access PensionWise/ an IFA if one has not been appointed by the scheme.

In our view, the availability of safe harbour partnership options will be a fundamental driver of success.

We would make three observations in relation to this list.

First, is that obtaining, comparing and selecting an outsource partner may be beyond the skill set of many trustees. Although a periodic review of the outsource arrangement will be necessary, the infrequency with which such activities will occur suggests that it is not a skill that trustee boards should devote time to developing. This implies that they will need support from advisory firms (some of whom may need to up-skill their own knowledge), which will entail an additional cost burden on the sponsor. The 'safe list' of providers mentioned above, maintained by TPR and FCA, could alleviate that cost.

Second is that much of the information – for Master Trusts in particular – is in TPR's possession through regulatory submissions. Publication of relevant data (especially in conjunction with a safe list) may again alleviate that cost. Consideration will need to be given to how longevity can be adjudged since authorisation alone has been shown to be no indicator. The expected consolidation within the Master Trust industry has been realised, and it is likely that it will continue apace. If members are transferred to one provider only for that provider to be wound up into another (possibly more than once), this will have a deleterious effect on member experience and create transition friction when assets are transferred.

Third is that the capacity of outsourced providers will need to be considered. Higher capacity cannot be forced on them. Maintaining member confidence in the system demands that outsource partners are both willing and capable of accepting such members seamlessly and without delays. In our view, such commercial Master Trusts that enter this transfer market should be able to demonstrate (to TPR's satisfaction) how new business resilience will be controlled, in a similar way to how they must demonstrate new business resilience for new employer onboarding.

There is some provider interest in being able to offer mortality pooling as an option to members. If you wish to encourage such a development, it will be critical to provide a robust legislative basis for trustees to be able to do this.

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 only want flexible access to your pension benefits?
- Do you want a combination of both?
- Do you want to do something else?

These are closed questions and require the member to be equipped to give a yes or no answer. For most members, it seems improbable that they will be in such a position; therefore, members will need to be given further information, narrative and context.

We also recommend that a fifth option is included, such as:

Do you need access to your pension pot while you decide what to do in the longer term? - 'longer term' can then be explored so that appropriate options (UFPLS or drawdown) can be considered.

All pension freedoms options should be available to members, subject to sensible parameters, but (as noted elsewhere) options available in-scheme can only be determined by trustees working together with employers / funders.

There needs to be a default solution to enable schemes to off-board if a member does not engage and make a decision by, say, age 75. This should be a safe harbour option. It is also worth adding that there is an overlap here and the consultation on solutions for small pots.

And a role of questions might, in fact, be more around avoiding irreversibly bad outcomes.

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

Yes, questions around health, dependents, mortality expectations, death benefits and the importance of succession planning are examples. This list is, of course, non-exhaustive and any framework will never be a complete substitute for advice/holistic financial planning. Any solution should signpost to relevant wider thinking and resources.

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.

One obvious issue is cost.

Regulatory clarity on what trustees can and cannot say, from both the Pensions Regulator and the Financial Conduct Authority, is also vital for both in-scheme and outsourced arrangements.

The advice/guidance boundary information issued in August for authorised firms does not directly provide any further assistance to trustees.

8. Do you have any suggestions for key metrics or areas that would need to be included if the proposed value for money framework was extended to decumulation or suggestions for where proposed metrics may no longer be required?

Please, see our response to question 4.

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?

Please note that the SPP is not a provider; the following reflects the general perception of our members.

For most schemes, these existing safeguards will be those currently prescribed by legislation, e.g. arranging guidance from PensionWise and checks on transfers where a member transfers-out at the point of decumulation.

Many trustees may be concerned about doing more than the law requires for fear of putting obstacles in place and/or assuming responsibility for member actions.

Some schemes provide websites offering generic information on options, tax, longevity and pot depletion.

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

Please note that the SPP is not a provider; the following reflects the general perception of our members.

We are aware that commercial providers have different approaches. Some levy higher ongoing charges and a transaction fee. Others set a minimum pot value. Many will transition members to a different default investment solution, which could involve a transaction cost of (on average) c0.8%. We believe that this data should be made publicly available (see response to Q4).

Most small and single-employer schemes do not provide decumulation services.

We expect, as implied in the consultation that the introduction of the framework will result in consolidation and a market where there are fewer but larger schemes.

As already alluded to, we do not believe that a non-commercial scheme should be compelled to offer services themselves; they should be free to partner or to consolidate.

A charge cap in decumulation would require separate consideration; it would not be as simple as just mirroring the accumulation framework.

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

There are both practical (finding a suitable and willing partner) and financial (advice and process) considerations of partnering arrangements. Please refer to our response to question 4.

12. Should government set out a minimum standard partnering arrangement?

Yes, minimum standards should apply in this area as they do in others. Our preference would be for standards to be based on the 'signposting' proposal.

13. a) Should all schemes be allowed to establish partnership arrangements or only schemes of a certain size? b) If only a certain size what should that be?

We favour flexibility for schemes to determine what works for them. All schemes should be allowed to establish partnership arrangements if that is their preferred model.

We assume there will be the usual exemptions from any mandating; e.g. SSAS and EPP.

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

Yes, bearing in mind our comments on a competitive market in the Introduction, a centralised scheme could have a role in delivering decumulation options. See our responses to questions 2 and 11. We note that although such a scheme could be offered, either for decumulation or, indeed, potentially for consolidation (although that is a different matter), it should be made clear that trustees have a duty to deliver optimum outcomes/value for members. Therefore such solutions should not be chosen as the path of least resistance; rather, trustees should consider all options and select the centralised option where it is the most suitable available for demonstrable reasons. Clear guidance should be provided to emphasise that a centralised option is not necessarily optimum for a given membership.

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

Our preference would be for legislation to implement these proposals and to ensure a robust safe harbour for trustees complying with the legislation. If an alternative approach is used as an interim measure then any alternative should still include protection for trustees. A possible approach would be to follow the bulk transfer regulations for DC transfers without consent, where an easement exists for transfers to authorised master trusts.

In all events, trustees and sponsors alike will need to be assured that their Trustee Indemnity insurers understand and reflect the new regulations so that there are no unintended liability issues that may arise over time. To this end, legislative compulsion would be the optimal solution for trustees, but guidance and/or codification should suffice. We believe there may be merit in engaging relevant underwriters and/or brokers as the policy direction becomes clearer.

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

Given that some schemes may choose to wind-up and consolidate, given the overlap with other ongoing consultations, which are interlinked with this one, we suggest that a minimum period for implementation would need to be at least 12 months.

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

Given the wider aims of these proposals, we do not believe that confining legislation to Master Trusts would achieve the desired outcomes.

See, also our comments in question 2, on the potential role for NEST. We agree that the duties proposed in this consultation should equally apply to the NEST trustee.

The above said, we believe that all schemes should be able to introduce partnership arrangements but can see the case for in-scheme options being confined to commercial master trusts in the first instance.

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?

See our response to question 2. As already mentioned, we have no principled objection to extending the role of NEST, at least not from the perspective of member outcomes, as long as this is not to the detriment of developing a competitive commercial market..

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

We cannot quantify these precisely, but developing new services such as those proposed, especially in-house, could be substantial.

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?

We cannot answer this question and leave any response to commercial providers.

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

Please, see our response to question 22.

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

Automatic enrolment has evidenced the benefits of 'nudging' people in the right direction and using inertia positively. As more savers become dependent on DC, the importance of support in decumulation, as well as accumulation, continues to grow in terms of better outcomes and flexibility as more people transition from work to retirement.

Confidence in the pension industry will grow if the journey from accumulation to decumulation is done properly and in a seamless manner.

The potential benefits of the proposals are significant, as are the costs/harm of not doing it.

Focussing on decumulation is long overdue and builds on all the good work on accumulation in recent years. This new focus will ensure that all the good accumulation work is not lost when members look to turn their pots into retirement income.

Longer-term, these changes being proposed in this consultation are both necessary and economically beneficial.

Response ends.-

Yours faithfully,

Martin Willis,
Chair, Defined Contribution Committee, SPP

John Wilson,
Collective Defined Contribution Group, SPP

Fred Emden
Chief Executive, SPP

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