THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

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Dear Ms Coskun

SPP response to Helping savers understand their pension choices

We welcome the opportunity to respond to this consultation.

Introduction

As a body of pension advisors and service providers, the Society of Pension Professionals (SPP) is conscious that it may not be the typical respondent to this consultation, however given our collective expertise across these areas and our focus on DC retirement options as a key strategic priority, we are responding to those areas within our scope of reference.

As we do not represent pension scheme membership directly and as members will respond directly in relation to their own schemes, we have not answered questions 1-3, 7, 9 or 13.

We do however believe that this area is critical to driving good member outcomes, and perhaps more importantly, safeguarding members from poor outcomes. We believe that it is vital that the industry supports good pension choices through a combination of proposition development (potentially including CDC and innovative investment solutions) and access to information, guidance and advice to best support the needs of individuals. As the DC pensions market consolidates, we believe it is crucial that schemes support these initiatives. In addition, there is a role to play for employers, in presenting generic solutions to their workforce in a way that delivers positive outcomes.

Detailed response

Question 4:

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

We do not operate schemes directly but note that what schemes provide to their members will differ quite dramatically depending on the resources of the scheme.

Many smaller own-trust schemes will operate the bare minimum – i.e. a 'wake-up' pack 4 months before retirement. Larger and in particular, commercial master-trusts will offer much more sophisticated offerings through different channels, including signposting to guidance, modelling tools and webinars. Some employers will supplement scheme led activity with additional support (for example retirement workshops). We note that sometimes deferred members may get less support than current employees.

Question 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?

We do not feel that we have direct experience that applies to this question but note that members generally feel that the options available to them are complicated and that they do not feel well prepared to make the decisions they are faced with.

In addition, as noted in the consultation, many own-trust schemes do not offer easy access to drawdown. This is often because of the increased risk and complexity - sponsoring employers would not generally want the scheme to take additional responsibility for individuals once they have left employment. As understandable as this is, it means that individuals generally receive less information on drawdown and there may be an implicit steer towards annuitisation if support is offered in this area.

The industry can do more to improve pre-access communications, including provision of information in different formats across the entirety of the retirement saving journey.

Question 6:

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

Age 40 to 50 is arguably the most important period to provide individuals with support, as it is the time at which many individuals have the opportunity to influence their retirement outcomes both in terms of value and in consciously deciding the retirement option they are most likely to choose. We agree that simplicity is key and that the current disparity between the requirements of contract based and trust-based schemes in terms of the timing of warm-up communications is unhelpful. However, we would advocate some level of consistent wake-up information is provided earlier than age 50.

b. What information do members need from age 50?

Age 50 is likely to be an age where many individuals are approaching a period where default funds have begun or are about to begin asset transitions that lead towards a particular retirement choice. This would be an appropriate age to highlight that possibility in addition to the current information that is required as part of the FCA wake-up packs (and extended to trust-based schemes in our opinion).

Many members either by conscious choice or because of inertia use the default solution that is in place for them in their workplace pension scheme. Whilst that serves a purpose, they can only be designed with a satellite view of the entire scheme membership and with little to no view of each members wider savings from prior employment(s). We're not suggesting the design of defaults should become a universal panacea, but that members should be reminded of the importance of the role investment strategy has in relation to expected retirement choice. This is a challenging area as in reality few members are equipped to do anything off the back of this reminder. Ideally members who understand what they want to do should have access to a small number of clear and packaged investment choices that they can match to their needs (this feeds into investment pathways as discussed in later questions).

We would also note that information should not stop at the point of first accessing benefits but continue throughout the period of drawing benefits.

Question 7:

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

We do not operate schemes directly, so have answered this from the perspective of the range of our membership.

At the point at which they access their pension?

In the commercial provider market, there is already a vast amount of additional support available to members. As advisers to own-trust arrangements, we see a trend towards clients looking to put solutions in place that plug some of the gaps they know exist. For example, putting in place signposted drawdown providers and access to more personalised guidance and advice at the point at which members need to make important decisions. This is a positive trend, but the resources available to each client mean implementation of these sorts of things is still something of an exception.

After they have accessed their pension?

Post retirement, whilst many of the retirement option providers and their solutions do provide plenty of self-help support, there is though we believe a weakness in how the traditional advice model is structured to support members. With the flexibility and choice now available, periodic or even one-time guidance or advice is probably suitable for many members who can make sensible choices with the right information and education. However, as an industry there is a risk that we remain with only two options available – guidance of a generic nature through Pension Wise for example, or advice based on a recurring model with a recurring cost. Consideration should be given as to whether any middle ground exists and how it is regulated (more sophisticated guidance) and as part of this the support available to people making decisions throughout their retirement, potentially as the ability or desire to make these decisions declines.

Question 8:

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

Many own-trust schemes have an established pathway to support members with annuity purchase. Whilst we see a trend towards signposting access to a drawdown solution, it is by no means being adopted as best practice for own trust schemes. As stated under question 4, there is a danger therefore of an implicit steer towards annuitisation or for members to choose a drawdown provider themselves that may not be optimal for their circumstances.

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

For income drawdown, as that market has developed, we have seen that there is less differentiation between drawdown and UFPLS now as sources of income (even though the impact on members of choosing UFPLS through the Money Purchase Annual Allowance can be dramatic). Solutions have become more member focused and aligned to accessing savings in the way and at a speed and frequency that makes sense for members. Disparities in the tax treatment of different approaches or options based on pot sizes now increasingly appear to have been replaced by triggers and warnings about the implications of a particular method of withdrawal.

Question 9:

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

As we are not a scheme, we will not comment.

Question 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?

We do not feel we are able to comment on this in detail as a respondent, but would note the following:

In principle offering members choices with more accessible language (a guaranteed income for life or draw income flexibly as opposed to annuity and drawdown is positive).

Care needs to be taken with any default solution as, if people do not engage with the process, they could end up in a strategy and/or asset mix that is not suitable for how they will take their benefits.

Consideration of an investment strategy that doesn't stop at a fixed retirement age is important – people could draw benefits at a variety of times, and it may be that continued exposure to some growth assets is important.

As is noted in the consultation, few own-trust schemes offer drawdown directly and members must transfer to a new arrangement to access it. This means disinvestment to cash and reinvesting into a new strategy and there is the potential for value seepage here through transaction costs. Whilst this should not be the sole driver for decision making at retirement, it is something that seems to go under the radar.

Question 11:

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

Ultimately, we see no issue with NEST offering the full range of income options for members. This links in with our answer to question 10 – for some members switching to a new arrangement is daunting and can come with cost. We note that at present the number of pots within NEST where income withdrawal over time is a realistic option (as opposed to lump sums) may be small but clearly it will increase over time.

Question 12:

What products or lifestyle strategies should providers give?

This is a difficult question to answer as we believe innovation is important and the ideal solutions may not exist yet, both in terms of products and investment strategies. However we would suggest that at present schemes offer at the very least a pathway to the three main income options (lump sums, drawdown and annuitisation) in a balanced way with guidance available (ideally above PensionWise).

In terms of investment strategies options that offer a degree of flexibility are ideal – e.g. a target retirement point wider than a single year and consideration of de-risking not just up to retirement but through into retirement. Language used to describe different 'pathways' can be as important as the strategy itself and should be carefully considered.

We would suggest that in the future members are likely to be interested in options that offer both some form of guarantee with flexibility on top of this. We note this can be achieved at present but only through very active selection and management of options (e.g. recurring annuity purchase).

Care should also be taken with the need to actively manage drawdown later into retirement when decision making could be more challenging, and products and strategies should consider this from a safeguarding perspective.

Question 13:

If you don't provide this, why not?

As we are not a scheme, we will not comment.

Question 14:

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

It has been well documented that CDC can provide greater value to members versus buying an annuity and so in principle we would be supportive of this as an initiative.

However, CDC only really becomes practical with scale and so for CDC to become a viable standalone DC decumulation option alongside annuity purchase and drawdown, there would need to be a well-established scheme under the banner of a master trust to facilitate access, in the same way we have seen DC master trusts facilitate access to drawdown.

In addition, CDC provides greater value due to the pooling of risk and therefore individual members do not shoulder the same investment risk as regular DC savers. It would therefore be interesting to see if CDC still offers greater value as a DC decumulation option for regular DC savers that do not receive the benefit from pooling of risk during accumulation.

Question 15:

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

As noted in our introduction, the diversity of SPP membership is such that our responses to this consultation are made from the perspective of only some of our members rather than all. However, we collectively believe that a clear distinction needs to be drawn between commercial schemes, such as Master Trusts, and non-commercial, single employer trusts who (it should be noted) are already facing potentially existential questions about their value offering which may therefore be reflected in their ambitions for future development roadmaps.

It is probably important to recognise that there are 4 core decumulation options that schemes can offer, in addition to a transfer to a retail product. (We have disregarded scheme pensions due to their rarity and since commercial Master Trusts cannot offer them and simultaneously retain their classification as a Defined Contribution scheme.) These are:

- External annuitisation,
- Payment of UFPLSs (or Small Pot Lump Sums),
- Drawdown,
- The less obvious fourth option is Partial Decumulation, which would facilitate periodic or simultaneous crystallisation events rather than support only a single crystallisation event.

With the above in mind, we believe it is true to say that all schemes already provide the first two options (annuitisation/UFPLS/Small pot lump sums). We believe that few single employer trusts will develop drawdown or allow partial crystallisation events. As noted elsewhere in our response, that is not the purpose for which these schemes were created, and the costs and risks of evolving such features will be prohibitive.

We also believe that all commercial players either have, or will (through competitive forces), be forced to introduce a full suite of decumulation options. (We fully acknowledge the distinction in NEST, but we believe that, in time, the weight of members/assets and member demand for decumulation solutions will garner political sympathy that will outweigh the usual competitor opposition to NEST expanding the boundaries of its statutory remit.)

It should be noted that even if all commercial Master Trusts do offer a full suite of decumulation options, they may not be of equal value from a member's perspective. All things decumulation are not equal, in drawdown in particular: some providers may levy higher fees. Others may impose minimum pot sizes. Value can be lost through changing the investment solution and even through differing administration processes. Therefore some providers will offer better value solutions than others, but we nevertheless expect that all commercial providers will have an offering in time, or they will face loss of client support and with it, weakened financial sustainability.

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

We are aware that some Master Trusts which have not hitherto offered drawdown or partial crystallisation events are now exploring options to introduce them. We anticipate that this will exert yet more pressure on other Master Trusts which don't yet offer such flexibility to do likewise.

The response from Single Employer Trusts has been understandably muted but we are aware that some have (and some continue to explore) 'buddying' arrangements whereby a scheme will point members to a Master Trust drawdown solution which the trustees have undertaken some due diligence on. We are aware of none that are exploring in-scheme drawdown

Question 16:

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

Yes. We believe that well designed structured solutions such as pathways can benefit (and in many instances are already benefiting) members. Triple defaulting (auto enrolment, paying minimum contributions, being and staying invested in the default) is a widely recognised feature of workplace DC. There is nothing to suggest we can anticipate widespread member engagement at this critical time and therefore default pathways are critical. We also note that investment pathways are in place for contract-based schemes and from a member comprehension perspective (and also provider/investment manager efficiency) there is a lot to be said for having consistency across pension structures. This is not to say the existing pathways framework is perfect – it can be seen as a relatively short-term solution (focusing on 5 years post retirement even if the strategies run longer than this) relative to the period over which benefits will be drawn, but we would suggest that evolving the existing framework and adopting it across both types of scheme is preferable to adopting a different approach.

Question 17:

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

We believe that most commercial Master Trusts are already operating with functioning investment pathways. Many Single Employer Trusts are doing likewise. We do not consider it to be a significant operational challenge to others. However, we would note that each investment change comes with attendant risks to value through the asset transition process. We also note that there has already been recent 'encouragement' to trustees to change the composition of their investments (for example, ESG focus). It would not be proportionate to force employers to meet transition costs and trustees will rarely, if at all, have unallocated assets to do so. The costs of transition will therefore likely be borne, once again, by members and this may come at a time shortly after they have borne other transition costs. Some member demographics (older, or those who transfer out) may feel the full effect of these costs without the luxury of time to offset them.

Question 18:

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

We believe it is too soon to meaningfully gauge or to attempt to interpret the effect. The challenges will lie in the communication exercises and, more expensively, managing the transition costs. It will also be critical to ensure that the administration processes and investment strategies are complementary.

Response ends

Yours sincerely

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Chair, DC Committee, SPP

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Chief Executive, SPP

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