

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

### A stronger nudge to using Pension Wise

Action is being taken to increase the usage of Pension Wise, the free guidance service introduced in connection with the pension freedoms in 2015.

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Although feedback on the service is generally very positive from those individuals that do engage with Pension Wise, overall numbers are still very low. While trustees and providers are currently required to signpost Pension Wise in retirement and transfer communications to members with flexible benefits who are aged over 50, it is felt that more needs to be done to encourage members to take advantage of the guidance.

From 1 June 2022, trustees will instead be required to arrange Pension Wise appointments for those who apply to transfer flexible benefits or start receiving flexible benefits.

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### Background

Pension Wise is a government service from MoneyHelper that offers free, impartial pensions guidance about members' options for their defined contribution (DC) pension savings. Appointments, which last between 45 and 60 minutes, are open to members aged 50 and over and can currently be conducted by telephone or online. Face-to-face appointments are not available at the present time.

According to data in a [Pension Wise service evaluation in 2019/20](#), Pension Wise has been shown to be helpful to those considering how to access their pension savings. 91% agree that Pension Wise helped them to consider their pension access options more thoroughly. In addition, 89% felt they learned something new from using the service.

A [DWP consultation: Stronger Nudge to pensions guidance](#), ran until 3 September 2021 and noted that although the use of Pension Wise is increasing, with around 132,000 appointments in 2019-20, a 29% increase from the previous 12 months, a significant number of DC pension savings are being accessed

without the use of regulated advice or guidance. The Financial Conduct Authority has found that 50% of all DC pots accessed in the contract-based retirement income market were accessed without advice or guidance.

The Financial Guidance and Claims Act 2018 contains provisions for the DWP to introduce regulations requiring a stronger nudge by trustees of occupational pension schemes. The DWP published its [response](#) to last summer's consultation on 17 January with regulations coming into force on 1 June 2022, at the same time as equivalent rules for FCA-regulated providers.

## When the stronger nudge applies

Trustees will have to apply the stronger nudge in response to an application from a relevant beneficiary to either transfer any flexible rights accrued under the pension scheme, or to start receiving flexible benefits provided by the scheme. Under the legislation, flexible benefits are money purchase (i.e. traditionally DC) or cash balance benefits.

A relevant beneficiary is a member (or a survivor of a member) who has a right or entitlement to flexible benefits under a scheme. This means that the stronger nudge will apply to the DC additional voluntary contribution (AVC) funds of members, whose only other benefits in the pension scheme are defined benefits, seeking transfer or crystallise their AVC funds. (For simplicity, a relevant beneficiary is referred to in this FYI Alert as a "member".)

Where the new regulations apply, they replace the existing disclosure of information requirements about signposting members to the pensions guidance.

## Exemptions

The stronger nudge does not apply to trustees if:

- the member has not attained age 50;
- the application does not relate to receiving flexible benefits;
- the trustees have received confirmation (either verbally or in writing) that the member has already been referred by the trustees of a different pension scheme to Pension Wise; which the member has either received or opted out of receiving; or
- the member is transferring flexible benefits to a pension scheme that complies with FCA rules on the stronger nudge.

(There is no exemption from the stronger nudge for members with small fund values, as the DWP believes the offer of having a Pension Wise appointment booked for them could still be worthwhile, and the member is best placed to make the decision as to whether they take up this offer.)

## Booking an appointment with Pension Wise

As part of the stronger nudge process, trustees must offer to book an appointment with Pension Wise on the member's behalf, which should be at a time and of a kind suitable for the member.

Where this offer is accepted, trustees must take reasonable steps to book that appointment. If the trustees' offer is not accepted, or where they are unable to book such an appointment that is

convenient to the member despite having taken reasonable steps, they must provide the member with details of how to book an appointment themselves.

It must be made clear to the member that the trustees cannot proceed with the application unless the member has received, and notified them of receipt of, the Pension Wise guidance, or the member opts out of receiving the guidance and provides the trustees with an opt-out notification.

## Opting out of the stronger nudge

Where trustees receive an application, or communication made in relation to an application, the member may give an opt-out notification in a specific, separate communication about opting out of receiving the guidance.

A separate opt-out notification need not be provided where the trustees have received confirmation (either verbally or in writing) that:

- the member has already received the guidance from Pension Wise, or received regulated financial advice in connection with the application, in the 12 months before the trustees received an application about the member either taking or transferring their flexible benefits;
- the member qualifies for a serious ill-health lump sum; or
- the member's application is solely to transfer any of their rights to flexible benefits accrued under the pension scheme.

## Record keeping requirements

Trustees must keep a record of:

- the receipt by the member of Pension Wise guidance;
- a member's opt-out notification; or
- the receipt by the trustees of a confirmation as to why a separate opt-out notification is not required.

## Comment

The rationale for trying to increase the use of Pension Wise guidance is clear. Despite favourable feedback from those using the service, too many members are neither seeking either the guidance or FCA-regulated advice when looking to make key decisions about their DC pension savings as they approach retirement.

It remains to be seen if the stronger nudge is the most effective way of the government achieving its aims. Will members see this as an unnecessary delay to crystallising or transferring their DC pension savings? The House of Commons' Work and Pensions Committee has called for the government to play a greater role in increasing the take up of Pension Wise guidance. The DWP has stated that this issue will remain under review, but there seems little chance of the government becoming more involved in the process; not until the initial results of the stronger nudge are known.

The Regulator is aiming to produce guidance ahead of the new duties coming into force to help trustees and administrators prepare for the changes.

It seems very likely that, at least initially, the costs incurred by pension scheme administrators will rise as a result of the stronger nudge, and the initiative will need to show an increased take-up of Pension Wise guidance (and continued positive feedback on the service), or the government may need to rethink its plans.

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