

# FYI<sup>®</sup>

## For Your Information<sup>®</sup>

### Helping savers understand their pension choices

On 11 July 2023, following the Chancellor of the Exchequer's [Mansion House speech](#), the DWP published a [new consultation](#) on a policy framework to support individuals at the point of access, which included a response to the call for evidence (Helping savers understand their pension choices) published in June 2022. This document is part of a number of documents published by the DWP "all designed to drive better outcomes for pension savers".

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#### Background

The DWP's call for evidence last summer looked at the support and decumulation products that are currently offered to members of trust-based pension schemes and what may be offered to them in the future. It also covered information, guidance, communications and decision making plus the role of collective defined contribution (CDC) schemes in decumulation, the National Employment Savings Trust (Nest) and Investment Pathways. A further response to the information, guidance and communications part will follow.

This new consultation runs until 5 September 2023 and looks at how to encourage members to become more engaged with their workplace pensions, support members to make informed choices and ensure the decisions made at the point of access remain the ones that individuals want to continue with. There are 22 questions.

It follows the FCA's [Retirement Outcomes Review](#) for regulated pension providers that was published in June 2018 and looked at how the retirement income market is evolving since the pension freedoms were introduced in April 2015. Following that report the FCA has taken action to help consumers make informed choices about their pensions and protect those who are less engaged from poor outcomes.

Alongside the consultation, the DWP has published data from HMRC Real Time Information (RTI) about trends in private pensions in payment ([Stopping saving and pension in payment statistics](#)) and an [analysis of the impact of private pension measures on member outcomes](#).

## Feedback from the call for evidence

### Products offered

Several master trusts reported that they offered a full range of options including flexi-access drawdown, uncrystallised funds pension lump sum (UFPLS) and an annuity brokering service. Smaller schemes offered fewer options, although UFPLS or annuity brokering services were likely and some schemes have partnered with master trusts to offer drawdown and UFPLS products.

Annuities were offered but the popularity of these had declined. Decumulation options often depend on pot size, with £10,000 being the most common threshold.

### Investment pathways and lifestyle strategies

This section looked primarily at the four Investment Pathway Options introduced by the FCA, which are a requirement for contract-based schemes but not trust-based schemes, although a number of master trusts have adopted them.

**Option 1:** I have no plans to touch my money in the next 5 years.

**Option 2:** I plan to use my money to set up a guaranteed income (annuity) within the next 5 years.

**Option 3:** I plan to start taking my money as a long-term income within the next 5 years.

**Option 4:** I plan to take out all my money within the next 5 years.

Some members are using these pathways and there was mixed feedback about the use of these within commercial master trusts and the issues for smaller schemes, noting they don't prevent members drawing too much or too little from their pension.

Engagement with investment choices is a struggle for many members and many continue to invest in a default lifestyle strategy.

### Expected developments

Feedback in this area covered a number of matters including partnerships between master trusts and single employer schemes, further consolidation, the role of CDC in the future of the decumulation market and thoughts on mirroring the FCA's requirements on investment pathways.

### Summary of external evidence

The response contains a raft of statistics about how people are accessing their pension savings, and what providers are offering, using a number of surveys, DC scheme return data from The Pensions Regulator and HMRC Real Time Information.

Essentially, few people are buying annuities, many are taking full cash withdrawals, transfers out are increasing (by an average of 58% a year from 2019 to 2022, although the data does not show the purpose), many people are using their pension before State Pension age to support shorter term financial costs, with many accessing their pension whilst still doing some paid work.

## **DWP's proposals**

The consultation part of the document is focused on supporting members who find the decisions they need to make at the point of access daunting and helping trustees provide members with default options for those who are less engaged.

The proposal is for trustees to have a duty to offer decumulation services that are suitable for their members and consistent with pension freedoms. There would be a default service from which members could opt out. The services would be in-house or via a partnering service.

The DWP want to encourage inclusion of access to a CDC arrangement within this framework to help manage the drawdown risk and market volatility, and there are questions for respondents on how CDC could play a role in decumulation options.

Furthermore, schemes are encouraged to develop the products and services they offer and guide members by asking questions about what they want.

According to the DWP, there is a desire for requirements to be aligned for schemes regulated by both regulators and the bodies are committed to this and the creation of a holistic framework for the assessment of value for money in DC schemes. The consultation includes questions about extending the VFM framework to decumulation and recognises that this would force further consolidation.

## **Implementation**

The DWP is looking to introduce these proposals soon. To start with, it will work with The Pensions Regulator to produce guidance to show how the objectives of these policies can be met without legislation being in place.

Ultimately, legislation will require trustees to provide decumulation services.

## **Role of Nest in decumulation**

The call for evidence asked whether Nest could be used to provide decumulation services.

Feedback suggests that the pensions industry is supportive of Nest offering the full range of pensions freedoms for its members, as long as additional subsidy is not required and the offering complements the market. This would require legislative changes and the implications are being considered.

## **Balancing the costs and benefits**

The DWP wants to understand the costs and benefits for the pensions industry of the proposed product and services framework.

## **Comment**

In the Ministerial Foreword to this document, Laura Trott, Minister for Pensions, refers to the consultation on expanding CDC schemes to multi-employer schemes and her objective “to help savers achieve better outcomes through provision of CDC, where members can benefit from greater investment opportunities and consolidation in the market whilst supporting the wider government agenda around productive finance”.

Automatic enrolment, the decline of DB pensions and the introduction of pension freedoms have led to a situation where there is a significant number of individuals with DC pensions who struggle to make decisions about accessing their pension savings. The proposals put forward will lead to further decisions by employers and trustees in relation to the services provided by their existing pension scheme.

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