

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

### Next steps - Helping savers understand their pension choices

On 22 November 2023, following the Chancellor of the Exchequer's Autumn Statement 2023, the DWP published the [outcome](#) to the consultation ([Helping savers understand their pension choices](#)) that was published following the Mansion House speech in July.

This document is part of a number of documents published by the DWP designed to “continue to ensure that trustees and those who advise them continue to work to produce the best possible outcome for pension savers”.

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#### Background

This government response to the consultation was published on the same day as other calls for evidence and responses to those that followed the Mansion House speech.

Our FYI dated 14 July 2023 ([Helping savers understand their pension choices](#)) explains the proposals put forward by the DWP.

In the Ministerial Foreword to the response, new Minister for Pensions, Paul Maynard (who replaced outgoing Minister, Laura Trott, days before the Autumn Statement), confirms that, in relation to trust-based occupational pension schemes, “all schemes will offer a set of decumulation options by default that members will be opted into”. This is intended to “stop people defaulting themselves, which currently happens with over half of DC pots in the contract-based market” and “will also allow new innovation such as CDCs to be part of the market over time”.

70 responses were received to the consultation which looked at the products and services being proposed to support individuals make informed decisions about how to use their pension assets.

## **Trustee roles and responsibilities**

The first question in the consultation was whether trustees should decide on the “suites of products” that would be offered to members at the decumulation stage.

The DWP found that “there is strong support for the need for a decumulation framework” with the majority of respondents agreeing that “trustees are best placed” to do this.

When asked about the minimum requirements that trustees should put in place, respondents agreed that access to all available income solutions should be provided by trustees “either directly, in partnership or by signposting”.

The DWP believe trustees have a “critical role to play in providing support to their members” and have decided that all schemes “will have an in-house offer of products and services, whilst still allowing [members] to access the products and services available under pension freedoms if they choose to”.

While recognising the concerns raised about the “knowledge, resource, and capability of trustees to fulfil their duty to offer their members products for decumulation” the DWP clarifies that schemes will have to consolidate if they cannot do this.

## **Legislation or guidance?**

According to the DWP, respondents confirmed that “without legislation to introduce the duties, the significant switch towards each member being offered decumulation solutions is unlikely to happen”.

Legislation will, therefore, be introduced “when parliamentary time allows”. In the meantime, interim guidance will be developed with The Pensions Regulator.

## **CDCs in decumulation**

Despite concerns from some respondents that a decumulation only CDC may not be optimal for everyone, it is understood that this would benefit members. The DWP estimates that “the decumulation phase of CDCs may offer a 20% uplift on top of an annuity income level”.

The DWP will, therefore, continue to work with the pensions industry on this model.

## **Defaults in decumulation**

There were a number of questions in the consultation about the decumulation offerings and the questions that individuals should be asked about how they want to use their pension savings (the FCA’s Investment Pathway Options). Similarly, there were a large number of different suggestions about these matters from respondents.

The DWP identified two policy options:

- Option 1 – Active ‘Opt-in’: Members would be offered a suite of options (i.e. those introduced in 2015 through pension freedoms) and the member would have to make the choice to opt-in or not.
- Option 2 – Active ‘Opt-out’: Based on the general profile of the membership, a generic solution would be developed by the scheme. The member would be defaulted into this solution if they access their pension savings but do not make an active choice (e.g. taking a tax-free lump sum and leaving the rest in cash).

The DWP has decided to proceed with Option 2 on the basis that if members are not engaged at the accumulation stage, they cannot be expected to be engaged in decumulation either. The intention is to allow trustees flexibility in how they design the default solution.

In relation to the questions trustees could ask members, the DWP is not proposing to suggest the range. It is expecting trustees to engage with members and assess their needs. Consideration is also being given to whether members have a “cooling off period’ and / or a point at which decisions could be reversible”.

The idea of a centralised scheme to provide decumulation solutions is not to be considered further at present.

### **Partnering arrangements**

There was a lot of feedback from respondents about the proposals to allow schemes to partner with external providers in order to provide access to all retirement options (rather than having to provide these within the scheme). In the main, respondents were strongly against restrictions based on size of scheme.

The DWP has agreed not to place limits, but noted the difficulties for smaller schemes partnering with external providers.

### **Guidance and communications**

There is recognition of the implications of the advice / guidance boundary and the DWP is already working with the FCA to look at this in more detail.

The DWP, however, expects trustees “to develop appropriate communications and guidance as part of the service offer[ed]” to members at the point of access.

### **Role of Nest**

There is broad support for Nest to be allowed to extend the products it currently offers to its members. However, there are concerns about market distortion and subsidy control. Consideration is being given to whether additional controls are necessary (e.g. restricting flexi-access drawdown to active members and restricting transfers into Nest).

### **Conclusion**

The DWP ends the response by confirming that the following measures are appropriate:

- “At the earliest opportunity place duties on all trustees of occupational pension schemes to offer a decumulation service with products to members at the point of access at an appropriate quality and price.
- Require schemes to devise a backstop default decumulation solution, based on the general profile of their members, that a member would be placed into if they access their pension assets without making an active choice on how to access their pension funds (e.g. simply taking the tax free cash lump sum).”

Before legislation is introduced, schemes will be encouraged to do this on a voluntary basis, with the Regulator producing interim guidance.

## Comment

Defaults have worked successfully in the accumulation phase as a result of automatic enrolment. Extending the principle of defaults into decumulation will help some members, noting that they will still have the option of making an active decision at retirement.

The partnering solution will better support many schemes who will not have the capacity to provide all retirement options within the scheme.

The next step will be voluntary for trustees, who will need support from both the Regulator and their advisers and pensions administration providers when developing the defaults, as well as member communications that stay within the advice / guidance boundaries.

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