Institute and Faculty of Actuaries

30th July 2021

Pensions consumer journey: The Pensions Regulator (TPR) /Financial Conduct Authority (FCA) Call for Input

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

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Pensions consumer journey: The Pensions Regulator (TPR) /Financial Conduct Authority (FCA) Call for Input

The Institute and Faculty of Actuaries (IFoA) is pleased to submit feedback to the TPR/FCA Call for Input on the 'Pensions consumer journey'. Within the actuarial profession we have experts in the technical detail, we have executives in small and large financial institutions, and we have experts working with the financial system itself. Our outlook is rooted in our Royal Charter (dating back to 1884) and our long history of working with policymakers to effect change, and it is focused forwards on how actuaries will contribute to solving the problems of the 21st century.

Please find a response to each of the questions in the Call for Input below, drafted primarily by members of the IFoA Personal Finance Working Party and Pensions Consultation Committee.

Should you wish to discuss any of the points raised in this submission in more detail please contact Caolan Ward, Policy Manager, (caolan.ward@actuaries.org.uk) in the first instance.

1. **Is this understanding of the consumer journey an appropriate foundation for regulatory policy making? If not, what other elements of the journey should we be considering and how might the changing nature of retirement and working patterns in the future shape the support required?**

   The consumer journey identified is an appropriate foundation for regulatory policy making, subject to the following comments:

   a) Retirement is not a discrete 'event' for many individuals, with 2019 data from the Office for National Statistics showing that around 0.5M people over the age of 70 remain in part time or full-time employment in the UK. Therefore, the consumer journey needs to recognise a phased line between 'approaching retirement' and 'accessing pension'.

      Pension schemes typically communicate with their members around six months before 'Normal Retirement Date' (DB schemes) or 'Preferred Retirement Date' (DC schemes). A more effective strategy would be to communicate with members around 5 years before these dates, to encourage better planning and in recognition of an increasingly phased approach to retirement.

   b) The table underneath 'Current touchpoints and communications' is heavily focussed on DC member communications and figure 1.1 recognises that DB pensions will be relevant for many members. A best practice communication strategy would ensure better consistency in timing of DB and DC communications to enable members to better plan their retirement.

   c) A communication 'touch point' when an individual changes jobs, or when the workplace changes provider or structure would enable members to better keep track of their pension benefits.

      Finally, although this consultation is focussed on pension provision it is worth noting that, according to a 2017 study by Statista, one in eight UK adults have no cash savings, with a further 32 percent of the population having between zero and two thousand pounds of savings. For this group, saving into a pension may not be the main priority (compared to saving into an ISA, for example) and so regulatory policy for engagement on pensions should have regard to a message on savings in general.

2. **Have we identified the correct overarching harms in the consumer journey? If not, what others are there?**

   We identified three additional areas of potential harm:

   a) Charges - members failing to understand the impact of excessive charging. This is particularly relevant for DC investment products where annual fees are charged as a percentage of funds under management.

   b) Poor decision-making in the decumulation phase for DC members – the introduction of default frameworks for post-retirement is needed, but trustees currently looking to do this would face an unclear regulatory framework between the FCA and TPR. Please see answers to questions 9 and 10 for further commentary on these points.

   c) Losing track of pensions from previous employments - this area of harm may be alleviated by the work being done on the Pensions Dashboard. Our suggestion in Question 1 above about a communication 'touch point' would also reduce this risk.

3. **Have we identified the main behavioural biases which influence saver engagement with pensions? If not, what others are there?**

   We identified two additional behavioural biases affecting engagement with pensions:

   a) Lack of trust in the pensions industry, and therefore considering pensions investments as poor value for money; and

   b) Lack of trust in the financial advice market, and therefore a reluctance to access good quality financial advice that may lead to better retirement outcomes.

      Trustees and employers play a vital role in helping members develop trust in their pension savings. We are supportive of the actions taken by pension schemes in recent years to help members to access good quality advice. Trustees and employers are often better placed to form a judgement on good practice and better able to negotiate preferential commercial terms for their members.

4. **Have we identified the right structural issues? How can the pension consumer journey be improved to address poor outcomes caused by structural issues?**

   We agree that you have identified the right structural issues.

   In addition, we agree with your observation that a disability can materially affect income and living circumstances. However, an extension to this that should be included is those with caring responsibilities. Recognising that these individuals may rely more heavily on State benefits, additional information about what they can do to improve their savings and retirement living standards would be welcome.

5. **Are there other barriers to engagement that we have not identified? Are there solutions to the barriers to engagement that regulators, industry or others should consider?**

   We have considered three additional barriers to engagement.

   a) Losing track of pensions - individuals struggle to know how to move their pensions from past employers and often lose contact with them. The specific barriers tend to be:
      - Not knowing where to find details of or contact details for past pension schemes;
      - Not knowing the process to follow in order to move pensions;
      - Slow administrative processes meaning that it can take several months in order to move pensions.

      The Government's 'pot follows member' initiative was a potential solution to the growing number of small unclaimed pension pots. However, we recognise one potential drawback being that individuals could automatically be transferred into a less suitable vehicle with, for example, higher costs or leading to the loss of guarantees. Therefore, potential solutions to this barrier include:
      - Communications with individuals at the point they change jobs to prompt a potential action;
      - Clear and easy to follow processes for transferring pensions to their new employer’s pension arrangements (or elsewhere), including signposting of appropriate pensions guidance such as Pensions Wise;
      - Tighter industry standards for the timescales associated with pensions transfers, building on the work already carried out by the Pensions Administration Standards Association (PASA).

b) Digital poverty – although the pensions industry is less technologically developed than some other industries, the risk remains that some members struggle to engage in an increasingly digital world and so any initiatives developed by the Government to improve engagement should not lose sight of the 'digitally excluded'.

   In particular, we think there is merit in a service that helps guide members through the various forms that need to be completed as part of a retirement journey and suggest that this is a service that would be usefully provided by the Money Advice Service.

c) Lack of financial education - a wider issue which leads to lack of engagement in pensions is lack of understanding of financial matters more generally.

   Possible improvements to this area would include:
   - Building on the initiatives started by the Personal Finance Society to improve financial education in schools. Currently this is volunteer-led and not compulsory and some further structure around this would be beneficial;
   - When an employer takes on new employees (of any age) they could be directed to TPR/FCA approved information on financial planning matters. This could include information provided alongside joining the workplace pension.

6. **What data do you use to improve engagement by different cohorts of consumers? How can we encourage the pensions industry to use behavioural insights and biases to engage consumers?**

Aon in the US carried out research showing that communications that were tailored to a member's personality type improved renewal rates in flexible benefit plans by 15%. However, we believe communications with this level of tailoring would only be practical for the largest pension schemes.

To improve engagement across all sizes of scheme, we therefore suggest that TPR should develop research in this area and publish industry 'best practice' guidance on achieving impactful communications. This may include:
- Impactful triggers for communications to increase contributions into a DC scheme - for example, on birthdays;
- Best practice for different types of workforces, such as by industry or 'blue collar' and 'white collar' workforces;
- Best practice for different generational groups or groups with protected characteristics.

This guidance would dovetail well with TPR objectives as set out in its recently published Equality, Diversity and Inclusion Strategy.

Separately, we agree with the concept demonstrated by 'Save More Tomorrow' that saving more money before more spending would be beneficial for many individuals. However, we note that some individuals would be better off using additional money in other areas (such as paying off debts) before increasing pension savings. This comment links back to our earlier comment that communications to consumers on pensions engagement should also have regard to financial wellbeing more generally.

7. **What lessons from other industries could the pensions market use to drive the use of technology as an engagement tool and what would stakeholders find useful for regulators to do to facilitate innovation, for example creating a panel or additional TechSprints?**

A recent OfCom survey showed that almost 20% of those aged 74 and over used a smartphone to undertake a financial transaction in 2018. The pensions industry lags other industries in its use of technology. For example, the banking industry gives consumers access to real time information and the ability to carry out instant transactions.

Larger SIPP providers make app-based technology available, but smaller providers and DB pension schemes are still developing this area. The Pensions Dashboard initiative should be used to drive an increased use of technology in the pensions industry. However, we note that only pre-retirement pensions will be displayed, leaving a gap in service for those people who have started to access their pensions.

Separately, pension schemes recognise that technology walks a fine line between providing information and advice. The guidance issued by the FCA and TPR in March 2021 was not clear in all areas and has led some providers to scale back the use of technology. To improve the use of technology in pensions the FCA and TPR should work with the industry to develop clearer guidance. We would welcome the opportunity to work with the FCA and TPR to develop clear and helpful guidance in this area.

8. **What guidance and support do employers need when picking a workplace pension for their employees and is more required?**

Smaller employers that do not have access to professional advice in this area may rely on brand names when selecting a workplace pension for their employees. A source of information to enable helpful comparisons of the key features of different providers would help smaller employers.

9. **What help do employers and firms need to be able to give appropriate support to members and how can we encourage employers to share appropriate Money and Pension Service guidance?**

We have a number of comments on this area:

a) As you are aware, there is currently a requirement for DC schemes to provide members with a suitable default investment option. We think there should also be a requirement to signpost members to a suitable drawdown vehicle. This would require confirmation from the FCA that this does not constitute a pension scheme inadvertently providing regulated advice.

b) The Pensions Advice Allowance is, in theory, a good initiative to enable members to access regulated financial advice. However, our experience is that very few DC providers make this option available to members due to administrative challenges and the limit of £500 is often too small to cover the cost of advice. We think that the limit should be increased, made accessible for both DB and DC advice and it should be mandated that at least the larger DC providers make this option available to members.

c) Both DB and DC pension schemes should be encouraged to signpost access to a regulated financial adviser, or a panel of advisers, who could support members. Where schemes choose to do this there are currently several tax issues that need to be addressed, including considering potential Unauthorised Payment and Benefit in Kind tax charges. This creates an administrative burden for schemes wishing to provide this useful benefit to members. Given the increasing trend for schemes to consider this we would welcome action from HMRC to remove cumbersome taxation barriers.

Where a signposted financial adviser is in place for a scheme, this could replace the requirement to provide a default pre-retirement solution and a default drawdown fund.

10. **Are there areas of regulatory overlap between TPR and FCA causing problems for the consumer journey? If so, what would mitigate these?**

    As you are aware, the FCA regulates contract-based arrangements and TPR regulates trust based arrangements and this can make it difficult for pension scheme trustees and employers to understand what they can and cannot do in both areas. As referenced in question 2, this is particularly problematic for trustees looking to provide default post-retirement solutions to improve the outcomes for DC members at retirement.

    Increased use of joint guidance that considers both trust and contract based arrangements is welcome, but we encourage both regulatory bodies to work with the industry to ensure that guidance is unambiguous and does not have unintended consequences.

Yours Sincerely,

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