

Call for evidence - Helping savers understand their pension choices

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Introduction

The DWP published a [call for evidence](#) on 14 June 2022 to explore what support members of pension schemes need to help them make informed decisions about how to use their savings. It will also seek to understand what support and decumulation products are currently on offer to members, and what may be offered to them in the future.

Key points

- Measures introduced by the FCA as a result of its 2018 review of retirement outcomes have created a “disparity” between contract-based and trust-based schemes in terms of communications, support and options offered to members with DC benefits.
- As more people move into retirement with greater reliance on DC pots, the DWP is considering aligning the regulatory regime for trust-based schemes more closely with that for contract-based schemes, with the aim of improving member outcomes. However, it believes the fundamental differences between trust-based and contract-based schemes should be reflected in its policy development.
- Members, consumer organisations, trustees and scheme managers are asked to provide input on the information and support members expect and currently receive in the run-up to, during and after accessing their pension, and what members need to help them make informed choices.

Background

The FCA published its [Retirement Outcomes Review](#) in 2018, which investigated how consumers and pension providers were responding to the introduction of the retirement flexibilities. One of the findings was that many people choose the “path of least resistance” when accessing their pension. As a result, the FCA introduced various measures which aimed to help consumers make informed choices, reduce complexity of decision-making, and protect those who are less engaged from poor outcomes.

The measures included:

- “wake-up” packs sent earlier and more frequently, with a clear recommendation to use pensions guidance, and those sent at age 50 limited to a single page summary and risk warnings
- rules to make costs in drawdown products clearer
- ensuring non-advised consumers entering drawdown only invest mainly in cash if they take an active decision to do so, and
- for non-advised members entering drawdown, introducing requirements to present, or (for larger schemes with at least 500 such members a year), to offer, investment pathway solutions based on how members intend to use their drawdown pot.

Trust-based schemes

As a result of the measures introduced by the FCA, there are “disparities” between the requirements for contract-based and trust-based schemes in terms of communications, support and options offered to members with DC benefits. (For example, occupational pension schemes are required to provide members with wake-up packs four months before their scheduled retirement date, on request, or when a member wishes to access their flexible benefits) (see our [Briefing](#) for more detail). The DWP is not certain whether it would be appropriate to introduce similar requirements for trust-based schemes. Although it considers there should be closer alignment between the two regimes, it believes there will be inevitable differences, due to levels of engagement and the fiduciary nature of the trust-based market.

The majority of contract-based schemes have a different relationship with their consumers than most trust-based schemes have with their members. The DWP attribute this to the fiduciary duty on trustees to act in members’ best interests. In addition, DC pots in trust-based schemes are typically relatively small, in part because AE only came into force in 2012, and many members of trust-based schemes will also have DB benefits so are not wholly reliant on their DC pension savings. Many DC and hybrid occupational schemes are still considering, or at early stages in developing, their decumulation options, typically requiring members to transfer to FCA-regulated products to access drawdown.

However, the DWP considers the two regulatory regimes share the same aim of supporting informed decision-making by members, and wants to achieve “similar and hopefully even better outcomes for people saving into occupational pensions”, particularly as more people move into retirement with greater reliance on DC pots.

Views sought

The DWP is therefore asking for input from members, trustees and scheme managers to find out what information and support members expect and currently receive in the run-up to, during and after accessing their pension, and what members need to help them make informed choices. They also want to understand if there are barriers which limit what trust-based providers can do to support members and, if so, how they can be addressed.

Views are sought from trustees and scheme managers on whether schemes are planning to make any changes to their decumulation offering, and what it would mean for schemes and the pensions market if the government required trustees to implement drawdown investment pathways in line with the FCA requirements.

Alongside this call for evidence, the DWP is considering whether CDC schemes could help it to achieve its goals. One of the key benefits of such schemes is that they pay an income in retirement which

means that members do not have to make complex financial decisions at that point. The DWP is engaging with a range of interested parties on how CDC might be extended beyond single or connected employer schemes and is also exploring how decumulation-only CDC models might work.

In addition, the DWP plans to engage directly with members and consumer organisations, and will consider the themes from the [responses](#) to the joint call for input by TPR and the FCA on the pensions consumer journey.

Next steps

The call for evidence closes on 25 July 2022.

Sacker & Partners LLP
20 Gresham Street
London EC2V 7JE
T +44 (0)20 7329 6699
E enquiries@sackers.com
www.sackers.com

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