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**Response from the Pensions Management  
Institute to DWP consultation: ‘Helping  
savers understand their pension choices’**





## **Pensions Management Institute**

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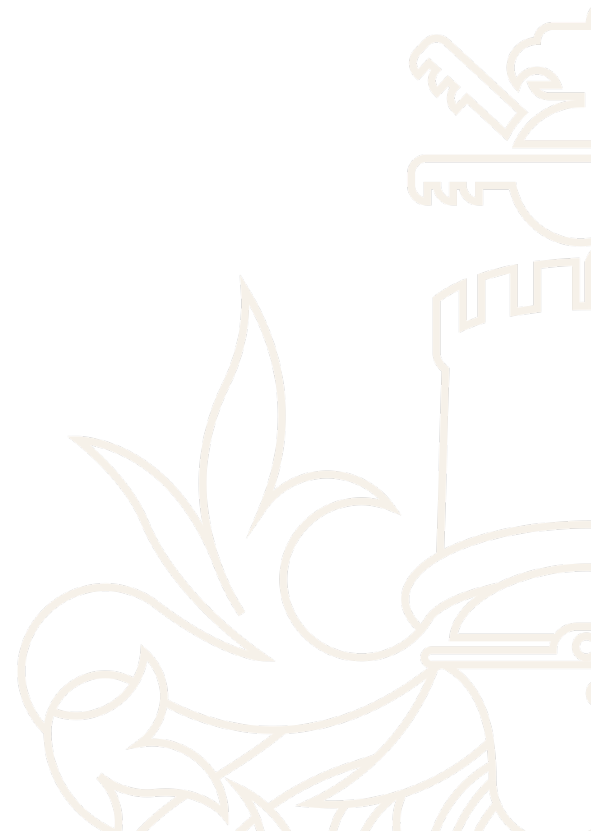
# **Response from the Pensions Management Institute to DWP consultation: 'Helping savers understand their pension choices'**

## **Introduction**

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 7,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

We trust that the feedback in the following pages proves helpful.



## General Comment

We are pleased to have the opportunity to respond to this consultation on this very important topic. As the consultation paper correctly observes, this part of the pensions journey for individual savers has been neglected for too long. As a result, a great number of at-retirement transactions are likely to be sub-optimal. If this situation continues unaddressed it risks undermining the achievements of the growth in pensions savings since the introduction of automatic enrolment. It also threatens to tarnish the public perception of pensions saving.

It is vital that this area is addressed as quickly as possible, especially given the current cost of living pressures which are undoubtedly impacting a number of peoples' will and ability to maintain contributions.

A key problem is once again the poor level of knowledge and ability amongst members of the general public to identify and implement the most suitable retirement arrangements for their particular case. The problem is undoubtedly also worsened by the lack of consistent and optimal choices being available to all.

This is a difficult subject to address, with many conflicting interests. We agree with the objectives underlying the proposals set out in the consultation document, "to offer a level of support for those who find the decisions they need to make at the point of access daunting and help trustees provide members with default options for those who are less engaged".

We also support in principle the general proposition set out in the proposals "to place a duty on trustees to offer decumulation services, which are suitable for their members and consistent with pension freedoms. Trustees must establish a service offering that meets the generality of their members. At decumulation members will have the option to either choose this default service offered by the scheme or access the products and services available under the pension freedoms if they choose to opt for these instead".

Any solution must focus upon the interests of members – but will also have to be practical and affordable for schemes. Our answers below to the consultation questions seek to find a balance that works for all.

### **1. Should it be up to trustees to determine the other suitable suites of products?**

In the interests of maintaining a balance between members' interests and the practicality and cost of providing alternatives, with the need to allow schemes flexibility to provide solutions that best fit their member demographic, this decision should lie with each set of trustees.

### **2. What can government do to help a CDC-in-decumulation market emerge?**

We do not think it is the Government's role to encourage any one specific option. Although it has many supporters, (and supports the present government policies around the investment of pension fund monies) CDC is not universally regarded as the ideal solution for pension schemes. It should be left to schemes and the markets to decide whether CDC options are to be created.

Therefore, government help in this area should be restricted to ensuring that the legislative environment is sufficiently flexible to enable CDC schemes to exist in a profitable form, and to ensure that schemes are subject to sufficiently robust regulatory oversight.

### **3. We would welcome views to understand what are the minimum requirements that trustees should put in place for members facing decumulation?**

As the consultation document correctly identifies, members facing decumulation range from those with no desire or ability to make their own decisions, through to (generally a much smaller number) those who wish to take advantage of flexibilities to tailor their choice to their specific circumstances. Those in the latter category have a wide range of ability to take appropriate decisions.

This means that there needs to be a default option offered to each member. That could be provided either through the scheme, or through the use of an approved third party; we think that this should be the trustees' choice.

In the interests of providing consistency to all pension savers regardless of the scheme of which they are members, trustees should be encouraged to offer as many alternatives as would be practicable to their circumstances. For smaller schemes this would likely be through offering a transfer of accrued assets to another arrangement. To make this a more practicable option for members, trustees should be encouraged to agree deals on agreed terms with another party. In case the market is not able to offer attractive terms to small schemes, NEST or the PPF could be required to provide a product as a default.

In all cases, high quality communication for members will be vital. It may be helpful for government to offer additional guidance on the content and standards of such communications. A key component of any such communication should be a decision tree.

### **4. What factors should a trustee / scheme take into account when developing their decumulation offer?**

From the member's perspective, a trustee/scheme should use their particular knowledge and expertise to develop an offer that is based upon an understanding of the circumstances and likely needs of their membership demographic and which seeks to satisfy those as far as is practicable.

As previously mentioned, producing an appropriate offering within the scheme itself may not allow for the most desirable set of options, but with the availability of arrangements made in the wider market, backed by a default in the event of a satisfactory option not being available in particular circumstances, a satisfactory set of options should be achievable.

**5 We would welcome views to understand if these are the right questions to capture the majority of ways an individual will want to use their pension wealth.**

The first three questions are clearly relevant and useful in forming a high-level framework. However, the catch-all fourth question is less so. Although it is clearly designed to allow for flexibility and future developments, to be more useful it might contain a corollary “if so, what?”.

It may also be useful at this stage to understand whether a member is likely to want to transfer their accrued funds out of the scheme, and also whether they are likely to remain in service, whether on a full or part-time basis.

**6. Are there any other questions we should include in the framework?**

See answer to question 5 above.

**7. We welcome views on whether you see any issues with this approach and whether there are potentially any implications due to the advice/guidance boundary.**

The potential issues here are the familiar ones around the boundary between guidance and advice. In order to avoid the process stepping over the line into technically giving advice, there will need to be clear caveats included to the effect that the process is intended only as guidance and therefore of a generic nature and that if the member wants advice they will need to engage the services of an IFA.

In addition, it will be important that the wording used does nothing to encourage a member to think that there may be an element of advice inherent in the process. As with any “default” option, members must not be encouraged to believe that by selecting that option (or through doing nothing, having it apply to their benefits) they are necessarily accessing the optimum arrangement for them.

Whilst not ideal in many ways, this process works to up to a point in respect of the accumulation phase of pension saving, and so should be a familiar message for members. However, it might be helpful if there could be a standard form of wording for such a disclaimer incorporated into statute, which if used will guarantee trustees and scheme managers exemption from any liability for a member ending up with a sub-optimal outcome.

**8. Do you have any suggestions for key metrics or areas that would need to be included if the proposed value for money framework was extended to decumulation or suggestions for where proposed metrics may no longer be required?**

**9. Do you have safeguards in place for members in the decumulation stage? If so, what are these safeguards and what information do you provide to members?**

This question is not applicable to us, as the PMI is not a scheme.

**10. Do you use the same charge structure as you do in the accumulation stage?**

See our answer to question 9.

**11. We would welcome views to understand what are the practical considerations of partnering arrangements.**

We take it as read that any organisation offering a partnering arrangement will be appropriately approved/regulated.

The main considerations that we can see here concern whether any proposed partner's offering is appropriate for the scheme's membership. Areas of concern would be the suitability of options to the particular scheme demographic, and value for money, including cost structures. Trustees/managers would need actively to undertake appropriate assessments to consider these matters.

For this reason, it would help to have one or more statutory default partners (see our answer to question 14 below).

**12. Should Government set out a minimum standard partnering arrangement?**

This might be helpful, particularly with regard to ensuring trustees/managers receive appropriate protection from potential legal action from members who might end up with what they regard to have been a sub-optimal outcome.

**13. a) Should all schemes be allowed to establish partnership arrangements or only schemes of a certain size?**

**b) If only a certain size what should that be?**

In view of our overall approach previously mentioned, of encouraging and enabling a full range of options consistent across all members, all schemes should be allowed to establish partnership arrangements if they are able and it is appropriate to their circumstances. We see no benefit in restricting the option to a limited category of schemes.

**14. Is there a role for a centralised scheme to deliver decumulation options, where trustees are unwilling or unable to offer these directly?**

We believe there would probably be such a role, in case the market is unable or unwilling to provide a full range of appropriate decumulation options, such as with smaller schemes. The only question is whether that should be a single scheme, or whether it should be a small number of schemes, with cases either selected by trustees following a review, or allocated on a carousel basis.

Our preference is for a small number of schemes to be available, to encourage competition and to dilute concentration risk that would come from what is likely to be a very significant value of assets being managed. However, to cover the possibility of the market not providing sufficient competition, or the full range of options to all schemes, there would be a role for a single default provider, such as NEST or the PPF.

**15. We would welcome views on if there is an alternative to our approach for legislation that would achieve the same results.**

We think that there should be a broad legislative duty on trustees to provide decumulation services to their members, with guidance on implementation methods from TPR. We do not believe that inserting the statutory duty into an existing Pensions Act needs to be a long process that takes up a lot of parliamentary time.

**16. We want to work with industry during the implementation of these proposals; what timeline should we work to implement these changes?**

These provisions are urgent: members are already having to make decisions, and as the consultation paper identifies, the numbers of affected members is increasing rapidly.

**17. When we introduce legislation should this only apply to Master Trusts in the first instance?**

It would not be helpful or appropriate to restrict the introduction of the new system to one type of scheme. Members generally do not get to choose the scheme they are in; the benefits of the new system should be available consistently to all members from the same date.

**18. Do you have views and evidence on how this can be delivered in ways that achieve our policy aims of stimulating CDC in decumulation, enabling Nest to provide the services outlined in this consultation, while ensuring a healthy competitive marketplace?**

**19. Are you able to quantify any of the one-off or on-going costs at this stage?**

There is insufficient detail at this stage to quantify such costs.

**20. Are you able to provide a breakeven point in pot size for providing certain decumulation products or services? Would this be different for decumulation only CDC's?**

We are not able to provide breakeven points. This will depend upon a number of factors, which may differ between providers. For this reason we are also unable to determine whether decumulation-only CDCs would have a different breakeven point.

**21. What benefits do you expect there to be from the proposals (members/schemes/wider)? Do you think they are quantifiable?**

The consultation document outlines the main benefits that are likely to arise. However, there would be wider benefits in terms of increasing member confidence in their own likely outcomes, and wider public confidence in the pension savings system generally. Currently the shortcomings in the decumulation phase are not widely appreciated. As more people get to experience them, those shortcomings will become more widely known, and the negative publicity that will result will adversely impact the current culture of saving which is being driven by automatic enrolment. In an increasingly challenging economic environment more people will look for justifications for not saving; not addressing the decumulation issues would be an "own goal" for any government wanting the AE system to continue driving pension saving.

**22. Do you think the benefits from the proposed changes outweigh the costs?**

It is difficult to give a precise answer to this question, given that at this stage costs are impossible to quantify with any great degree of accuracy. However, a solution along the lines proposed is urgently required, and we believe that with the accrued experience currently in the industry with other bulk solutions, this should be achievable at bearable costs relative to the benefits that will accrue to members.