PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CALL FOR INPUT ON PENSION CONSUMER JOURNEY

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ABOUT THE PLSA

Our mission is to help everyone achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

We represent the defined benefit, defined contribution, master trust and local authority pension schemes that together provide a retirement income to 20 million savers in the UK and invest £1 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs and others who play an influential role in the governance, investment, administration and management of people's financial futures.

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EXECUTIVE SUMMARY

The PLSA welcomes the FCA and TPR looking at the pension consumer journey and how to improve engagement amongst savers. We support the ambition to look at the behavioural science behind engagement, the barriers and the structural issues.

As well as responding to the main questions in the Call for Input we have attached our submission to the Work and Pensions Select Committee on Pension Scams (Annex I) and our report on DC Decumulation (Annex II) which sets out our final recommendations on Guided Retirement Income Choices (GRIC).

- In our response we highlight the role of life moments in pensions consumer journeys; these are both teachable moments and times when decisions made have an impact upon retirement outcomes.
- On the overarching harms we have given our views on the current situation with regard to pension scams and how to tackle them, drawing on our evidence to the Work and Pensions Select Committee.
- We call for more workplace guidance at life moments to help savers from different cohorts. We also ask for more collateral from the Money and Pensions Service, and a change in approach from regulators to allow employers and pension schemes to give savers the support they need.
- We have set out how Guided Retirement Income Choices for the decumulation stage of the consumer journey, a stage which we believe this Call for Input does not give sufficient prominence.
- Clarity on the advice/guidance boundary, and perhaps even redefining it and other regulated activities, could also help significantly. In some cases, these can have a material difference in the way that savers experience the consumer journey, and in others are unlikely to be justifiable where they are found to impact on outcomes. Were the pensions regime to be designed from scratch we believe it would be highly doubtful that some of the current inconsistencies and differences in treatment would be introduced.
- We acknowledge that the structural issues identified in this Call for Input are the right ones and give our views on self-employed savings, small pots, the gender pension gap and other under-pensioned cohorts.
- The PLSA's Retirement Living Standards are a great planning and guidance tool that is underpinned by academic research and is widely adopted by industry and other organisations. The standards could be further disseminated to help improve engagement levels.

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- The Pensions Dashboards could help with engagement when sufficiently developed so that people can see all their pensions in one place. However, many savers will still need access to guidance, modelling tools and regulated advice to make sense of the information.

Engagement is a key tool for improving retirement outcomes, but it is not the only one. Increasing pension contributions through Automatic Enrolment and looking at default fund strategies are also measures, during the accumulation phase, that could help support better retirement outcomes.

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CONSULTATION RESPONSE

Q1: 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 paper has identified 5 key decisions and 5 key points in the pension consumer journey, and makes clear that the focus of the Call for Input is on the first two: starting a pension and accumulating. Life moments could include but are not limited to starting a relationship (and conversely ending a relationship), getting married, having children, taking time out for caring responsibilities, returning to work after taking time out, redundancy, changing careers, starting a new venture, getting a divorce, children leaving the home and loss of a loved one.

For this reason, the 5 key stages in the journey as set out are unlikely to fully represent the complexity of most people's pension consumer journeys during which decisions are often tied in to events of significant consequence in the individual's life.

In our view, more needs to be made of life moments, or teachable moments throughout the journey. These are opportunities that can impact upon the retirement outcome for the pension saver but also moments when they are more likely to engage[1].

The paper rightly identifies that the timing of the decision to start saving is made for the consumer in workplace settings. Pension schemes are very conscious that the *starting a pension* stage in the workplace context, can therefore be a time of cognitive overload for the new job starter taking in details about their new workplace, colleagues, training and the pension scheme is part of an overall benefits package. A second chance at engagement may come slightly after starting a new job/pension, in the form of the first pay slip or even later when members receive the first pension statement.

The decision about how much to start saving is often anchored to the minimum contribution levels for Automatic Enrolment and the vehicle for saving in the workplace setting is also decided by the employer.

The second stage of accumulation which for most savers will be the longest stage in the pension consumer journey will determine the retirement outcome the most. In a workplace setting it may also be a period when no decisions have to be made by the saver. Advice at the accumulation stage may focus around reviewing pensions, where funds are invested and whether there is a need to alter contribution levels or consolidate pensions, though savers often seek independent free guidance.

The paper identifies the Annual Benefits Statement and the Annual Chair's Statement as touch points with the pension saver in a workplace setting. We have already made clear to the Department of Work and Pensions, that the Chair's Statement is an ineffective engagement tool and is in fact more of a compliance exercise for trustees. Many of our members have reported extremely low engagement from savers with the Chair's Statement, and DWP's own post implementation report stated that they are 'not working' as a document intended for multiple audiences[2].

The Annual Benefits Statement is now subject to change via government regulation to bring in a two-page Simpler Annual Benefits Statement on a mandatory basis. It is our understanding is that

[1] Charles Duhigg, The Power of Habit: Why we do what we do, and how to change, (Random House, 2012) p191

[2] https://www.legislation.gov.uk/uksi/2016/427/pdfs/uksiod_20160427_en.pdf

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Statement Seasons are also likely to be consulted upon – though in our view such measures have not been sufficiently user tested and are likely to be highly resource intensive for limited impact on savers. We continue to work with DWP to help inform the development of these initiatives.

Many of our pension scheme members go far beyond communicating at the touch points mentioned in the accumulation phase. They operate online digital portals where savers can view and make changes to their pensions. Schemes also send out targeted communications to pension savers during the accumulation phase, giving information about the pension and signposting to online platforms and to pensions guidance.

The accumulation stage is the one where savers are most likely to have life moments that will serve as teachable moments. Decisions made in respect of these life moments, for instance taking a break from work, going part time, sharing or not sharing pension assets on divorce could have significant impacts on final retirement outcomes.

It should also be noted there will be some savers that are both accumulating pension and decumulating at the same time, especially as a result of the pension freedoms introduced in 2015, and poses interesting questions about which traditional stage these savers are in.

We notice that the paper is focussed on Millennials, Generation X and Baby Boomers. Generation Z savers should also be considered as some members of this cohort will already be in their early to mid-twenties and therefore already have started pensions and be accumulating.

Q2: Have we identified the correct overarching harms in the consumer journey? If not, what others are there?

We believe the FCA have identified the main overarching harms in the consumer journey. However, it is important to highlight that automatic enrolment, which has been successful in bringing new people into pension saving, is based on the principle of inertia. This means that during accumulation there is less risk of savers not optimising their pension saving. Instead, more responsibility lies on employers, and support should be given to them to ensure they make good decisions on behalf of employees to ensure they are choosing well-performing products. We cover the support that could be offered to employers, in more detail, in response to question 8. Regulators also have a role in ensuring investment funds are run in such a way as to serve the members' best interest alongside enforcing other interventions such as disclosure requirements and investment pathways.

Guided retirement income choices

However, savers do have to make active decisions to optimise their savings once in decumulation, which they may not be well-equipped to do. The PLSA asked 2,000 pension savers and retirees about their current and future plans for drawing their pension. A majority of workplace savers with DC pensions who were yet to retire said they knew they would have to make a choice as to how to take their money. But 30% either didn't know about or understand their options, and only 28% had a clear plan about how they would take their money. Nearly three quarters (71%) of savers in defined contribution (DC) funds want help to choose how to access their pension, including some wanting to be guided by their scheme to a ready-made retirement income option.

This is why the PLSA has proposed Guided Retirement Income Choices [3](GRICs). Savers should be provided with additional support by introducing a framework for schemes to support members by signposting them to a preferred product or solution, in the scheme or to another scheme – in

[3] https://www.plsa.co.uk/Policy-and-Research-Document-library-DC-Decumulation-Final-Recommendations

order to help savers navigate the risks they face. We believe a new regulatory framework is the best way of mitigating the litigation risk that schemes currently face when acting in this space. The framework will also deliver a set of minimum standards for the saver communication and engagement journey as well as product design and governance.

We believe the Government and regulators should introduce a new regulatory regime, which includes:

1. The creation of a new statutory obligation for schemes to support their members with decumulation decisions.
2. Three key elements to the support:
   - Member engagement and communications.
   - Providing or signposting to decumulation products
   - Scheme or governance processes relating to the design or selection and the ongoing delivery of the above.
3. A set of the minimum standards for each element.
4. Guidance to help schemes to deliver the three key elements and to work within the standards.

We believe this framework will give more support to savers who do not engage with their options – applying the lessons learned from automatic enrolment and the open market option – as well as supporting freedom and choice for those who do, as well as helping to manage risks for savers and schemes.

The FCA Investment Pathways, fully implemented by February 2021, go some way to help address one of the key risks for savers and have shaped the market response. Where savers decide to access their pension through drawdown without taking advice, the pathways nudge savers to allocate their pension saving to one or more of four investment pathways, according to their objectives. We believe our solution works in conjunction with the pathways but provides a broader response to a number of additional risks that need to be addressed. While Investment Pathways are designed to apply to the next 5 years and be a choice between products (cash, annuity, drawdown), GRIC provide a whole of life solution and are likely to result in a solution that involves a blend of products.

Scams

The Call for Input also notes that consumers are vulnerable to scams andhe nature of pension scams keeps evolving. In 2017, according to the Pensions Regulator, the average pension pot lost to a scam was worth £91k, with some savers losing up to £1 million. The victims had been typically cold called, given a free pension review and promised a high rate of return on their investments.

Despite cold calling on pension matters being banned in the UK, Canada Life Research in August 2019 has shown that the approaches out of the blue by phone, text or email offering a free pension review (a common method for pension scammers) has gone up from 12% to 17% of non-retirees.

Recent PLSA research shows that 64% of savers over 55 are worried about the possibility of being scammed. 33% of people would not know how to check if an investment was genuine or a pension scam, and this figure increases to 47% for lower income levels (up to £14k p.a.)

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We have broadly defined 6 types of pension scams/pension mis-selling as tabulated below:

TYPE OF SCAM AND DESCRIPTOR
Pension Liberation: Prior to pension freedoms, scammers devised vehicles for people to access their pensions early by promising them access to some of their money if they were to transfer. With pension freedoms there has been some of this operating for those under 55 but not on the same scale.
Small Self-administered scheme (SSAS) pension scam: A company is set up in the saver's name and is used as the employer/SSAS sponsor. The SSAS offers loans back to the saver prior to age 55. The SSAS includes pension scammers as trustees, the money is often not even invested just channelled straight to the pension scammers in a classic Ponzi scheme.
Investment scam in SIPP/QROPS: Two versions of this. Sometimes the SIPP and QROPS are run by the scammers. Other times the vehicle is legitimate and it is only the investment that is the scam. The investment is illiquid as far as the legitimate vehicle is concerned but again it is a Ponzi scheme and the saver is left paying for administration charges of the vehicle even after it is clear they have been scammed with the original investment going insolvent. Unfortunately there are cases of legitimate high risk investments being invested in by savers which are not scams, so it may be hard for the pension provider to differentiate.
Claims management companies: The scammers re-appear claiming that the investment legitimately went insolvent but the saver is due compensation and that they can claim it for the saver. This often involves phoenixing of firms or at least advisers.
Mis-selling/DB Pension Transfer: This is within the regulatory ecosphere of pension advice. Half of pension transfer advice was considered unsuitable by the FCA and a ban on contingent charging in October will help to stop some of the perverse incentives that exist. There will however continue to be unscrupulous individuals who will advise unsuitable pension transfers or their own profit. The free chicken in a basket/ free pension review for British Steel Pension Scheme members is evidence of this.
Online fraud: pension and investment scammers are increasingly using the internet to offer free pension transfer advice. They buy commonly used search terms to do so. Unfortunately some regulated firms also do this, buying search terms of MaPS, Citizens Advice, of big pension schemes, and of advice directories.

23% of PLSA members have changed processes during the pandemic to counter the possibility of increased pension scamming and 21% have increased staffing.

CASE STUDY 1: One of our scheme members have seen transfer requests slowly increasing since pension freedoms. They introduced a new process to protect members from the risk of scams which involves sending out a questionnaire to those that request a transfer out. The questionnaire is based on information on scams from TPR and asks the member about their financial adviser, whether they are independent or restricted in the advice they give and how much they are charging. The answers

are then assessed for any possible red flags. They find it difficult to always assess whether the destination scheme is a scam or not and would appreciate independent risk assessment from government.

CASE STUDY 2: The DHL Group Retirement Plan Trustee Directors have introduced a robust due diligence process to protect against possible scams. They don't accept letters of authority from third parties when approached directly, instead they send out their GDPR compliant letter of authority form to the member to fill in. Quotes are only sent to FCA authorised 3rd party firms and the member is signposted to TPR website and sent the FCA scams smart leaflet. DHL operate an "approved" list to whom transfers may be paid immediately, which includes authorised Master Trusts, public sector schemes and schemes where they have made 5 previous transfers with no concerns. Where the scheme is not on the approved list or is overseas, extra due diligence occurs, including using a third party company calling members to try and establish whether there is any scam activity. Questionnaires are also sent to the member and the receiving scheme where concerns are found and ultimately a red flag letter is sent to the member explaining concerns about the possible transfer out.

The PLSA is on the board of the Pension Scams Industry Group (PSIG). PSIG has created a code for pension administrators to help them carry out due diligence on pension transfers. The PLSA supports this code and host it on our website. The code helps administrators identify possible scams, lays out the due diligence process step by step, from initial transfer packs to discharge letters. The code recommends using an internal white list which typically allow 80% of transfers to go ahead without extra due diligence and for the administrators to spend more time doing due diligence on the 20% "grey" transfer requests. PSIG also has an Industry Forum which shares intelligence on possible scams with each other as a teleconference involving 100's of pension schemes and has call for the development of a database of pension scams.

We have analysed and suggested actions on each of the types of pension scams below:

TYPE OF SCAM	AFFECT OF CURRENT MEASURES	POSSIBLE FURTHER MEASURES/ACTION
Pension Liberation	Pension Freedoms have reduced demand from savers to access pensions before fixed retirement ages. The Pension Schemes Bill will help to stop transfers out to illegitimate SSASs which may be used to access money prior to age 55.	Tighten rules on Small Self Administered Schemes even further to include a pensioner trustee, who would be a professional and responsible for making sure everything is legitimate.
SSAS pension scam	As above the Pension Schemes Bill will help to stop transfers out to illegitimate schemes, without an employment link	As above, tightening rules and adding the requirement for a pensioner trustee.

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Investment scam	Where the scheme is a legitimate SIPP with a scam wrapped inside, the Pension Scheme Bill may not be enough. QROPS transfers should become much harder with the Pension Scheme Bill and the QROPS transfer charge in operation. Investment scams, whereby the money is withdrawn and invested may be identified by the red flag system envisaged by DWP.	The FCA could tighten up rules for who are retail clients and who are sophisticated investors, and therefore the investments that are allowable for SIPPs. SIPPs should also not be allowed to charge when a scam is being investigated or found to be a scam, and is the only asset in the pension. The red flags system should apply to all non-Master Trusts.
Claims management scam	The FCA are now regulating claims management companies, and so this may become harder in the future but there is no evidence to suggest that this is the case as things stand.	There needs to be a thematic review of claims management companies and their practices by the FCA, to understand the extent of the problem and to come up with regulatory solutions.
Mis-selling/DB Pension Transfer	The decision by the FCA to ban contingent charging, the change in emphasis on advice, the transfer valuation policy and the introduction of triaging should help to clean up those who wish to be legitimate.	Moving to a ban on transacting business on an insistent client basis would ensure that clients are not being publicly advised one thing whilst privately encouraged to transfer out.
Online Fraud	Pension Wise and other government bodies have a protected status online.	More action needs to be taken in respect of search engines and paid for search terms to ensure that fraudsters cannot take advantage of people online. We also need to future proof Pension Dashboard/s against future possible risk of cloning. This could be addressed in the Online Safety Bill.

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Adequacy

An overarching harm which is not considered in the Call for Input is that people are not saving enough for an adequate retirement. The contributions into a saver's pension is the most important factor in achieving good retirement outcomes.

- In 2016, Hymans Robertson undertook modelling for the PLSA that examined the likelihood that workers would have a pension equivalent to the Pensions Commission's target replacement rate (TRR).[4] The findings showed that, of the 25.5 million people then in employment, just over 50%, or 13.6 million people, were at high risk of failing to meet their TRR.[5] The situation was worse for those with only DC savings; where 97% were at high risk of failing to meet their TRR.
- In order to improve adequacy, we believe the 2017 AE Review recommendations should
- be implemented, including getting rid of the Lower Earnings Limit for qualifying earnings, decreasing the minimum age from 22 to 18 and having a savings solution for the self-employed. The government is committed to doing this by the mid-2020's and it would be good to see the timetable for the reforms set out.

We also believe that there should be an increase in contributions to 12% of salary over the course of the 2020s and that consideration be given to moving to a 50/50 employer/saver split. Our timetable for moving minimum contributions up to 12% is set out in *Hitting the Target: A Vision for Retirement Income Adequacy*[6]. In 2023 and 2024 we propose a two stage removal of the Lower Earnings Limit as a qualifying threshold for Automatic Enrolment. From 2025 to 2030 we propose employer contributions go up in 0.5% increments until they reach 6% of salary. From 2029 to 2030 our roadmap has employee contributions going up in 0.5% increments until they move from 5% to 6%.

The PLSA acknowledges that for a small proportion of savers, contributions at the rate of 12% of salary (without the LEL) could lead to them over-saving. As a result, we recommend that research should be carried out into the effective use of additional flexibilities, such as 'opt-down' and the sidecar mechanism.

Q3: Have we identified the main behavioural biases which influence saver engagement with pensions? If not, what others are there?

We believe the Call for Input includes most of the behavioural biases, however there are a couple which are missing which merit further consideration given their potential impact on outcomes.

Anchoring is also a behavioural bias which harms savers. Anchoring is where an individual's decisions are influenced by a reference point. In pensions there are at least two insistences of anchoring bias which can significantly harm savers:

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[4] The TRR for someone with pre-retirement gross earnings of less than £9,500 is 80%, between £9,500 to £17,499 is 70%, between £17,500 to £24,999 is 67%, between £35,000 to £39,999 is 60% and is 50% for those earning £40,000 or more (2005 figures).

[5] PLSA, Retirement Income Adequacy: Generation By Generation (2016) https://www.plsa.co.uk/portals/0/Documents/0605-Retirement-income-adequacy-Generation-by-Generation.pdf

[6] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting%20The%20Target%20-%20A%20Vision%20For%20Retirement%20Income%20Adequacy.pdf

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- Many savers believe that the 8% minimum contributions will be enough for them to achieve a high or comfortable standard of living. However, as seen from PLSA adequacy research in Q2 – with 8% contributions they are unlikely to achieve their TRR.
- Savers also struggle to underestimate their longevity. Many people base their predictions on when their parents or relatives died[7], therefore, they could be significantly underestimating their own life expectancy. This can lead to sub-optimal pension withdrawal decisions, for example, by withdrawing down too quickly or others may be too cautious in their spending habits (i.e. draw down their savings too slowly). This exposes them to the risk they might underspend, for fear of running out of money, and live a lower standard of living than necessary in retirement.

Another bias that is not considered in the Call for Input is cognitive overload. When people are first enrolled in AE it occurs at the same time as they are starting a new job. Therefore, an individual can receive a significant amount of information at the same time and information about their pension might get missed or overlooked. Some of our workplace pension scheme members have seen response rates improve when first email communications are sent out with a short delay after someone has joined employment.

In identifying lack of financial confidence, the Call for Input proposes that confidence may be improved by such life events as purchasing a house, and suggests that this will be happening later for Millennials and Generation Z. There is evidence from the Money and Pensions Service [8]that low financial confidence is more prevalent in financially vulnerable households, among young adults, particularly young women, BAME groups, unemployed people and private renters. Low levels of financial confidence are also seen among those with below-average financial capability (who tend to be under 35, single, social tenants, unemployed and with no educational qualifications). The pensions consumer journey should reflect the different circumstances of the population, with specific mindful attention to those will low financial capability and confidence.

Q4: Have we identified the right structural issues impacting pensions and do others also have a material impact? How can the pension consumer journey be improved to address poor outcomes caused by structural issues?

The Call for Input has identified some of the key structural issues impacting pensions and in this response we look at each of them.

Employment: Self-employed savings

The PLSA agrees with the FCA focus on self-employed savings as one of the structural issues. As stated in the Call for Input there is an increasing amount of self-employed people, and there will be a significant amount of people who spend time in both employment and self-employment. Automatic Enrolment has been a massive success in increasing the number of employed people saving into a pension. This success would be hard to mirror amongst self-employed people as it would be hard to build in an automatic enrolment function where people have no employer other than themselves.

[7] https://ifs.org.uk/publications/12904
[8] https://www.fincap.org.uk/en/thematic_reviews/what-is-financial-confidence

The 2017 AE Review of Automatic Enrolment recommended that more research should be done to increase the participation of self-employed people in long-term savings and pensions[9]. To this end, the PLSA has been involved with DWP's Self-Employed Working Group looking at data from trials carried out by pension providers to encourage take up of pensions or long term savings. The research is still progressing but has been hampered by the pandemic. The working group has primarily been looking at the non-gig self-employed workers, with an understanding that the status of gig workers was at the time being determined by court cases. The work is at early research stage but continues and should be informative to improve communications approaches to increase long-term savings amongst this cohort.

The PLSA view on gig economy workers is that some are likely to be wrongly considered as self-employed and that a decision that some are, in fact, workers or employees, would mean they would benefit from automatic enrolment.

The PLSA remains committed to seeing solutions put forward for self-employed savings and are happy to help with the development of them.

The FCA carried out a TechSprint on self-employed savings in which the PLSA participated in as both roaming experts and as members of one of the competing teams. It was a worthwhile exercise, and it may be worth revisiting that work and building upon it for a future TechSprint.

Employment: Small Pots

Tied to the structural issue of employment is the issue of small pots. The issue of small pots was a known consequence at the outset of the implementation of automatic enrolment (AE) and ways to limit their creation were included in the first AE review in 2010. The PLSA is supportive of plans to expand AE by lowering the earnings trigger and extending it 18-year-olds, however, unless action is taken this will likely increase the number of small pots, as these groups are likely to move jobs more frequently. People aged 18-34 are estimated to have an average of over 12 jobs in their lifetime.

In 2012, the DWP predicted that there would be 50m dormant pots by 2050, and that over 12 million of these will be under £2,000 and in 2020. The PPI have projected that without policy change the number of deferred pots could grow from 8m to 27m by 2035[10].

There are a number of key impacts on savers who accumulate small, deferred pension pots are worth highlighting:

- Erosion of the pot due to costs and charges
- Losing track of their pension and losing out on retirement income
- Multiple pots impairing decision-making at decumulation
- Confusion or perception of complexity if receiving communications from numerous schemes

Work is currently underway in the industry to help resolve the issue of small pots. In response to recommendations outlined in the DWP chaired Small Pots working group report[11], the PLSA and ABI have jointly convened a Small Pots Co-ordination Group, which compromises experts from a range of pension providers, industry bodies and stakeholders. Both regulators also participate in the Coordination Group and various working groups.

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668971/automatic-enrolment-review-2017-maintaining-the-momentum.PDF

[10] https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2020/2020-07-23-policy-options-for-tackling-the-growing-number-of-deferred-members-with-small-pots/

[11] https://www.gov.uk/government/publications/small-pension-pots-working-group

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The group will coordinate relevant work across the industry. In 2021 it has focused on the administration processes required to underpin long-term solutions in the interests of savers.

So far the industry has examined existing data-matching requirements, common data standards and the requirements for a low-cost transfer process for mass pot-consolidation exercises. An initial update report is expected in September 2021.

The PLSA believe a number of different solutions will be needed to resolve the stock and flow of small pots:

- a solution designed to operate in the short-term and deal with the stock of small pots (e.g. consolidating returners, member exchange)
- a solution designed to resolve the whole issue in the longer-term and the flow of small pots (e.g. a default consolidator, Pot Follows Member, Pensions Dashboard as an engagement tool – in conjunction with other options).

We also believe that any solution to the small pots issue should incorporate the following objectives:

- There should be no material detriment to the saver from being (automatically) transferred between AE DC schemes (including consideration of costs and charges).
- Transfers should be efficient for schemes (e.g. automated or semi-automated) and simple and quick for scheme members.
- Transfers should not solely rely on active decisions by savers to take place.
- The proliferation of small pots should be stopped so that administration and other costs do not rise.
- Competition issues must be managed appropriately.

Some progress on small pots can be made within the existing legislative framework, however, if a solution is to work for a wider range of schemes – including contract-based schemes - government and regulatory intervention will be needed. There are outstanding areas which need to be resolved before a final model is selected, such as better understanding the impact and potential costs and benefits to both savers and schemes, including the financial implications and experience of interacting with savings, and proportion of the overall issue that is addressed.

Further research on understanding the consumer journey; how small pots are created and how models would work with savers' pension journey is needed and regulators may wish to remain involved in this work.

Gender

The Call for Input is right to quote the Wealth and Assets study showing the vast difference between median pension wealth of men and women. We believe the reasons identified are valid, however the CII Insuring Women's Future Project, which the PLSA was involved with, went further to identify key life moments that have an impact on the retirement outcomes of women[12]. The CII identified amongst other life moments, taking on child caring responsibilities, divorce, caring for an adult and loss of a partner as key life moments that affect retirement outcomes.

The extent of the gender pension gap, as it relates to above the identified life moments, is demonstrated in the following statistics:

[12] https://www.cii.co.uk/media/9224351/iwf_momentsthatmatter_full.pdf

- There are 50% more women than men heading towards retirement without any pension savings. 1.2 million women in their 50s (approximately 5% of all women) have no private pension, relying on the State Pension system and their partner to provide a retirement income. (PPI)
- Most women in the bottom 40% of households have no pension wealth at all. (CII)
- In their early 60s the median private pension wealth of women is one third of men's private pension wealth. By retirement women would have accrued £51,000 compared to men's wealth of £156,500 (a third). (PPI)
- By 60-64, women have an average pension wealth of £35,700, a fifth of men's. (CII)
- To draw the same pension income throughout retirement, women would need to have saved around 5-7% more than men by retirement age to allow for living longer. (PPI)
- 71% of divorced people did not discuss their pension during divorce proceedings, leaving women missing out on £5 billion every year. (CII)
- The median pension wealth for separated women is £0, compared to £12,000 for separated men. (CII)
- The median pension wealth for a widow is £13,000 compared with £43,000 for a widower. (CII)

The PLSA successfully lobbied to have the financial literacy of women prioritised as part of the Money and Pensions Service's UK Financial Wellbeing Strategy. We have called for guidance to be given at life moments to make sure women are making the most informed decision at points that could impact their retirement outcomes. This guidance could be given in the workplace by the employer or the scheme or MoneyHelper. The guidance should be available to all and will also help men with their retirement outcomes where they have similar decisions to make at life moments.

Ethnicity, Disability and Other Protected Characteristics

It is only right that this Call for Input is looking at ethnicity, disability and other protected characteristics as it seeks to understand structural issues in pensions.

The PLSA is committed to improving the scope of pensions and retirement outcomes for everyone. As well as the People's Pension's research quoted in the Call for Input, we would also suggest the 2020 report on under-pensioned groups by the Pensions Policy Institute[13]. The report highlights different pension gaps with different ethnic groups and also pension gaps on the basis of disability, gender, marital status and caring responsibilities.

One of our members, a major Master Trust, is researching the LGBTQI pensions gap and is also doing a piece of research with Mind on the Mental Health pensions gap.

The PLSA, in collaboration with Travers Smith, has also created a Made Simple Guide for Diversity and Inclusion which lists other invisible characteristics such as neurodiversity and socio-economic background[14]. It is also worth looking at these characteristics when looking at structural issues.

[13] https://www.pensionspolicyinstitute.org.uk/media/3679/20201208-the-underpensioned-index-report-final.pdf

[14] https://www.plsa.co.uk/Portals/0/Documents/Made-Simple-Guides/2020/Diversity-and-Inclusion-Made-Simple.pdf

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Q5: 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?

The low levels of understanding about pensions as evidenced in the Call for Input is certainly a barrier to engagement. The difficulty in moving products or changing contribution levels are less barriers to engagement but more barriers to taking action, once savers are engaged.

The PLSA agrees that the pensions dashboards will help improve engagement by showing the saver all their pensions in one place. The users of the first iteration of pensions dashboards may need the saver to access guidance, modelling tools, or regulated advice to make sense of the information. Ultimately as dashboards evolves through future iterations they will become a great planning tool for savers, and much easier to use. For us, the key point to note is not to expect pension dashboards to create a paradigm shift on engagement with pensions from the start.

Q6: What data do you use to monitor and improve engagement by different cohorts of consumers? How can we encourage the pensions industry to use behavioural insights and biases to engage consumers?

We have encouraged our members to respond to this question directly. We are aware that many of our members user test their pensions communications prior to issuing it to savers, and once it is in the field. The schemes then measure both levels of engagement and the efficacy of the message in terms of savers taking actions. These communications are targeted to and tested on different cohorts of savers where relevant. Behavioural insights are actively considered and factored in by many of our members when designing pensions communications .

Q7: What learnings 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?

There are lessons that can be learnt from other industries in their use of technology. TechSprints can be a useful way to facilitate this by bringing pensions experts, communications experts, coders and UX designers together. The PLSA would be happy to participate in any future TechSprints on pensions engagement and could also facilitate or encourage the participation of our members. We also believe it would highly beneficial for the regulator to be more supportive of communication innovations for pensions where these might otherwise constitute financial advice or guidance and test whether exemptions for pensions could be in savers' best interest.

Q8: What guidance and support do employers need when picking a workplace pension for their employees and is more required?

More support and guidance is needed, though not so much at the initial selection stage and instead at the review stage. Once a workplace pension is chosen it would make sense for an employer to review whether the pension is still suitable for its workforce periodically. We provide guidance to help employers do this through our Pensions Quality Mark[15]; additional support for employers benefits retirement outcomes in the long run. When the PLSA launched the new standards for PQM on the 24th January 2019, we called for improved governance by enhancing the quality of pension

[15] https://www.pensionqualitymark.org.uk/retirement-quality-mark

trustee boards and employer-employee pension committees through focussing on skills, experience, knowledge and understanding.

Q9: 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?

The Advice/Guidance boundary and regulated activities relating to financial promotion and arranging investments should be redefined to allow employers and schemes to give more support to savers.

There is still a lack of clarity over the rules surrounding advice, financial promotion and arranging and the degree to which these apply in workplace pensions or other pensions contexts. In some cases, these can have a material difference in the way that savers experience the consumer journey, and in some cases are unlikely to be justifiable where they are found to impact on outcomes. Were the pensions regime to be designed from scratch we believe it would be highly doubtful that some of the inconsistencies and differences in treatment would be introduced. For example, there are currently different rules for what an employer can say about the benefits of enrolling in a trust-based scheme and what they can say about a contract-based scheme. In most cases such as these scheme members have no control over the type of scheme their employer has selected for them, nor should they have any reason to understand why their experience is different. We believe there is a need to both clarify the rules and remove or rationalise the differences, levelling the journey up to the respective regime that offers the empirically superior journey for member outcomes.

We would encourage the Money and Pensions Service to create more pensions and money guidance around life moments and for this to be readily available for employers to disseminate.

The Retirement Living Standards, based on independent research by Loughborough University, have been developed to help us to picture what kind of lifestyle we could have in retirement. Standards set out how much a saver would need in retirement at different levels of comfort based on baskets of goods and services and extensive focus group research. The Retirement Living Standards are aimed at cutting through the ambiguity that currently surrounds retirement planning. We want to help savers think in a practical way about the kind of lifestyle they might lead in retirement. Like the ‘five a day’ or 5-a-day healthy eating maxim, the PLSA hopes the Standards will one day become a rule of thumb for retirement planning. By giving savers a general figure that they can understand, our hope is that savers can then start to develop their own personal targets based on their individual circumstances and aspirations. These Standards are widely adopted; they are accessible to more than 14 million savers through more than 50 different organisations. We could do more to encourage the industry to help contextualise saving and the rules of thumb provided by the Retirement Living Standards should reach a wider audience to help improve retirement outcomes for everyone.

Q10: Are there areas of regulatory overlap between TPR and FCA causing problems for the consumer journey? If so, what would mitigate these?

In addition to the points raised in Q9, members do not understand the difference between trust-based and contract-based schemes. The industry often exerts significant time and energy in comprehending, interpreting, implementing and complying with legislative and regulatory change that can often at best be mostly parallel and marginally different, or at worse based on highly different assumptions and objectives and have materially different effects. TPR and FCA could consider more joint guidance and common consumer branding to alleviate some of the confusion that exists amongst savers, employers, and other actors.

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There are two areas that we have identified as having a clash of approaches between TPR and FCA on workplace pensions, promotion of the scheme and arranging decumulation options for savers.

Employers should be able to promote saving into a contract-based pension scheme as well as trust based. Pension schemes should be able to arrange for decumulation with an FCA regulated provider as well as trust-based schemes. If the FCA would look at changing its approach to both of these areas to more closely match TPR this would be a good way to address regulatory overlap/confusion.

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