The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Department for Work and Pensions (DWP) led Call for Evidence on ‘Helping savers understand their pension choices’.

**The IFoA and DWP have a common interest in helping savers to understand their pension choices and the IFoA’s work, research, and our members’ skills and knowledge, are particularly relevant to this Call for Evidence. This is clearly evident from the existing work and campaigns the IFoA has undertaken and which we have referenced in compiling this response, including our recent** [**research on pensions freedoms and public attitudes**](https://www.actuaries.org.uk/freedom-and-choice-public-attitudes-seven-years) **and the** [**'Great Risk Transfer'**](https://www.actuaries.org.uk/system/files/field/document/TGRT_Campaign_Recommendations_FINAL.pdf) **(GRT) report.**

For further discussion on any of our reports or the points made below, please contact Caolan Ward in the first instance on [Caolan.ward@actuaries.org.uk](mailto:Caolan.ward@actuaries.org.uk)

**Some of the key points we have highlighted in this response are:**

* **The IFoA is concerned that many UK households are not saving enough for later life, and that many are ill-equipped to deal with the risk of running out of money in retirement**
* **The IFoA conducted some consumer research in January 2022 on pensions freedoms, information, guidance, and decision making.** We believe that the findings are useful in the context of this call for evidence (key findings below)
* **The IFoA believes that advice is needed throughout people’s working lifetime, not just at or close to retirement.** This includes a different et of challenges for *‘saving during working lifetime’* and *‘advice at or near retirement’.* Full details below.
* **Retirement is not a discrete 'event' for many individuals.** 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.
* **While some groups’ needs might be well met by existing pension provision options, the IFoA is of the view that better options could be made available for some groups.** We are open minded about the possibilities and have recently been investigating two options in particular: Collective Defined Contribution (CDC) and Pooled Annuity Funds (also called “modern tontines”).
* **As well as the existing work and recommendations discussed within out ‘Great Risk Transfer’ report,, IFoA would be happy to engage with DWP on our ongoing work as it is published including within Decumulation Pathways and cost of living considerations**.

**The Call for Evidence has aimed specific questions at members and pension schemes, but the IFoA has a broader focus, so we have grouped our evidence under the specific themes highlighted in the Call for Evidence document.**

**Information, guidance, and decision making**

The IFoA is concerned that many UK households are not saving enough for later life, and that many are ill-equipped to deal with the risk of running out of money in retirement. Since April 2015 individuals have had greater flexibility in how they can access their pension benefits, for example they are no longer required to take an annuity and can now access their benefits as cash or transfer them to a drawdown arrangement.

In 2016, one year into the new changes, the IFoA carried out preliminary research into how people were responding to these new flexibilities. The research found that there were reasonably high levels of awareness, albeit mixed views as to whether the flexibilities were positive overall.

Seven years on from the launch of pensions freedoms, we conducted the research again in January 2022 to find out whether the trends originally identified had changed. You can access a full breakdown of our findings by downloading the full report [here](https://www.actuaries.org.uk/freedom-and-choice-public-attitudes-seven-years). For the purposes of the Call for Evidence, please find key relevant considerations from the research below. We believe that the findings are relevant to many of the questions posed, particularly those in relation to information, guidance and decision making.

**Our latest study was carried out by YouGov in January 2022 and covered 2,065 adults in Great Britain aged over 55.**

It showed that:

* **Those who may need it most are least likely to access savings** – where individuals had not accessed their pension savings since the new rules were introduced, this was mainly because they did not have a need to access them. However, there was a significant difference by social background, with individuals from middle-class backgrounds being 15% more likely than those from working-class backgrounds to say that they did not need to access their pension. Individuals from working-class backgrounds were more likely to state that they did not know how to access their pension or needed more information about their options.
* **Limited understanding** – despite a high proportion of respondents claiming that advice was not necessary, a large proportion of individuals showed a worrying lack of understanding about pension products. Only 1 in 4 (26%) individuals ‘fully understand’ the charges they are paying for their defined contribution pension, with 17% admitting to ‘not understanding at all’. Similarly, only a third (30%) were aware of how their pension savings are invested, with 42% having ‘no idea’.
* **Pension Wise could and should be used more** – where pension savings had been accessed, only 1 in 5 individuals (22%) had used the Government’s pensions guidance service, Pension Wise. 2 in 5 are taking no form of guidance or advice at all.
* **A gender imbalance** – there was evidence of a gender imbalance, with 58% of men stating that they did not need to take guidance or advice, compared to 43% of women. Furthermore, where advice was required, men were 15% more likely to take tailored regulated financial advice, whereas women were 7% more likely to access generic guidance from Pension Wise and 6% more likely to ask friends or family. Women were 8% more likely to identify the cost or not knowing where to find advice as the barrier.
* **Flexibility is a good thing** – reassuringly, 68% of individuals who accessed their pensions savings since 2016 would not have done anything differently. Of those individuals who would have done something different, 9% would have planned earlier so as to understand their options better and 9% would have liked more flexibility or cash.
* **Money concerns** – 1 in 5 respondents (22%) worry about running out of money in retirement, while 18% worry about not fully understanding their options or products. These concerns were highest in the respondents aged 55–64 who will be approaching retirement within the next five to ten years.

The IFoA is currently working on exploring the trends we found in the research further, with a view to publishing a more fulsome analysis paper later in 2022. We are happy to share the full version of the report when it is complete. In the meantime, please see the headline themes below.

* **Awareness of reforms** – compared with the initial survey, the reforms are more clearly perceived as a ‘good thing’.
* **More encouragement for access to guidance and advice needed** –actions are needed to improve take-up of guidance and access to good-quality regulated financial advice. This supports the Government’s efforts to introduce a [Stronger Nudge](https://www.gov.uk/government/consultations/stronger-nudge-to-pensions-guidance/stronger-nudge-to-pensions-guidance) to pensions guidance, and the actions taken by pension schemes themselves to provide access to regulated financial advice. However, further action is needed, for example by increasing promotion and support for access to Pension Wise and improving the availability and scope of the Pensions Advice Allowance.[[1]](#footnote-1)
* **Diversity and inclusion** – there is evidence of a gender and social imbalance when it comes to understanding how to access pensions savings and advice. Targeted action aimed at these groups should be implemented to help redress this imbalance.
* **Consumer understanding difficulties** – there is clear evidence that savers do not understand enough about their options, or pension products generally. The survey showed clear gender and social differentials, both in the types of pension provision people have in these groups and in how important their pensions are to meeting their normal expenditure in retirement. There is also a significant lack of understanding with respect to life expectancy. Actions are needed to address financial education in the pre-retirement phase and as savers approach retirement.
* **Limited regret** – most respondents were satisfied with the decisions they had made at retirement (albeit combined with the above conclusions on education and low take-up of advice/guidance). However, this may point to a lack of consumer understanding given that our latest study demonstrated limited knowledge of pension products for a significant proportion of over 55-year-olds.

The IFoA believes that advice is needed throughout people’s working lifetime, not just at or close to retirement.

*Savings during working lifetime*

It is important to recognise that individuals’ decisions about pensions do not occur in a vacuum. The choice for many relying on auto-enrolment is not between “do I pay more into my pension or not”, but between “do I pay into my pension or save for a house deposit” or “do I pay more into my pension or meet my current household needs”. This becomes a more complicated picture when we consider life circumstances such as age, location and marital status, and other associated costs like the cost of health and social care.

In some respects, the question of what an adequate level of pension savings for retirement is, is interlinked with what one considers adequate wages during a working life. It is important to recognise the challenges that come with investigating each policy lever in isolation, however, advice and guidance which promotes a broader savings mentality might be very helpful for people facing these challenges and could still improve longer term outcomes.

The forthcoming Pensions Dashboards will pay a significant role in helping to engage the public with their pensions savings, thereby supporting better planning for retirement and growing financial wellbeing. Clear and simple information about an individual’s multiple pension savings, including their State Pension, is a key component of this work. This will also help them to reconnect with any lost pension pots.

Giving the public a tool to understand and manage their pension is a key part of a life-long understanding that would lead to better savings decisions and decumulation outcomes.

*Advice at or near retirement*

The IFoA also believes that free guidance is a valuable option for those who cannot afford advice, and evidence suggests that people who take Pension Wise guidance feel more confident and have better outcomes than those who do not[[2]](#footnote-2). There is, however, significant concern that the current take-up of Pension Wise is much too low.

We recognise the recentGovernment response and moves towards a stronger nudge to pension guidance. While we support the view that a stronger nudge is beneficial for pension savers in the UK, and that providing more Pension Wise guidance sessions before retirement will help consumers to consider the pros and cons of drawdown/the opportunity to better understand which product will best meet their needs, some argue that this behavioural or ‘nudge’ approach is not enough. Research by MaPS into the nudge approach suggests it had less effect on those who were least engaged with pensions and therefore in most need of help[[3]](#footnote-3).

The IFoA is of the view that providing automatic Pension Wise guidance sessions before retirement would help consumers to consider the pros and cons of drawdown at that stage, so that they could later look separately at the choice of which product would best meet their needs.

**Member communications and engagement**

Retirement is not a discrete 'event' for many individuals, with 2019 data from the Office for National Statistics showing that around half a million 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.

The IFoA has identified several barriers to engagement with members that we feel are relevant to this Call for Evidence:

**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 to move pensions.
* Slow administrative processes meaning that it can take several months 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).

**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'.

The IFoA believes that 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 MaPS.

**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 and others 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.

The IFoA believes that communications to members should be more targeted to achieve better outcomes. 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%[[4]](#footnote-4). 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, research accompanied by industry 'best practice' guidance would help to achieve impactful member 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.

**Use of pension savings, Collective Defined Contribution, and investment pathways**

While some groups’ needs might be well met by existing pension provision options, the IFoA is of the view that better options could be made available for some groups. We are open minded about the possibilities and have recently been investigating two options in particular: Collective Defined Contribution (CDC) and Pooled Annuity Funds (also called “modern tontines”).

CDC pensions give individuals an income for life in retirement, at fixed cost for employers – these come with no guarantee of benefit levels but are invested to give an expectation of cost-effective pensions. Based on the CDC design developed by Royal Mail with the Communication Workers Union, working with some of our members, the Government has made good progress in this area through the Pension Schemes Act 2021, and the subsequent development of the CDC code of practice.

IFoA is seeking further Government action to show employers that CDC is an attractive alternative to DC schemes, address concerns employers may have, such as regulatory burdens and costs, and to support the introduction of multi-employer and master trust CDC schemes to provide employees of smaller organisations with access to CDC. The IFoA is open to engagement with DWP on how this may be facilitated.

Further, the IFoA is investigating the advantages of Pooled Annuity Funds. These would build on individuals’ current option to drawdown from a DC pot in retirement, by introducing an additional ‘product’ through which longer-lived members, who therefore have need for additional funds, would receive top ups to their pots from those members who die relatively younger.

Funds can still be retained for dependants. Pooled Annuity Funds are another way of providing a more regular ‘income for life’. Our initial academic research on this has been completed[[5]](#footnote-5) and concluded that Pooled Annuity Funds are expected to generate much higher retirement income than a standard DC drawdown pot which is drawn down prudently to mitigate the risk of a long lifespan. We have commissioned further research into the feasibility of Pooled Annuity Funds and to compare outcomes with other pension vehicles. If this research indicates that Pooled Annuity Funds could be a superior way to provide benefits for certain groups of UK individuals, we would be keen to engage with industry over appetite and with Government over the feasibility of allowing DC pension trusts to provide Pooled Annuity Funds.

**The ‘Great Risk Transfer’ report and relevant recommendations**

In its **‘Great Risk Transfer’** report, the IFoA made several recommendations relevant to the Call for Evidence. We are happy to further discuss any aspects of the report and are pleased to see some recommendations now progressing. You can find a full breakdown on each of the recommendations in the final GRT report: [here](https://www.actuaries.org.uk/system/files/field/document/TGRT_Campaign_Recommendations_FINAL.pdf)[[6]](#footnote-6). However, to summarise the IFoA’s current position:

* **CDC Schemes** – The IFoA is supportive of Government action to explore the viability of multi-employer or master trust CDC schemes and to make CDC an attractive prospect for employers generally.
* **Decumulation pathways** – We are pleased that the Government is considering the introduction of default decumulation pathways as an option for all, and as a safety net for savers who cannot or will not engage with the decumulation process when entering retirement. Ideally this would cover not only contract-based pension schemes, but also trust-based pension schemes, since the latter may increasingly provide decumulation solutions.
* **Pension Wise** – We recommend that the Financial Conduct Authority (FCA) should set a specific and ambitious target to achieve a significant increase in take-up by individuals of Pension Wise appointments before accessing their pension.
* **Pension Dashboards** – The IFoA is very supportive of the Dashboards project, and we look forward to engaging further with DWP as it progresses.
* **Adequacy of pension contribution rates –** We recommend that the Government should reinvigorate its public messaging around adequate pension (or retirement) saving levels – particularly through workplace auto-enrolment pension schemes – to ensure that consumers are not lulled into a false sense of security that their saving for retirement will be adequate to achieve their retirement income goals. In doing so, the Government should use expertise and evidence on testing behavioural responses to different messages and channels, to identify those that are most effective in influencing saving behaviour.

**Ongoing work and opportunities to engage and extra considerations.**

As well as the existing work and recommendations discussed above, we would be happy to engage with DWP on our ongoing work as it is published, including:

* Further analysis and recommendations from our YouGov study (Available later this year)
* Continuing our work on the Great Risk Transfer, the IFoA are working in partnership with the David Hume Institute[[7]](#footnote-7) to better understand individuals’ and groups’ perceptions of the risks they face, what helps people when they make decisions and practical steps to mitigate their risks. This will include pensions and put this in a wider context. (Available later this year)
* Further research regarding Pooled Annuity Funds (modern tontines) and comparisons to outcomes of other pension vehicles
* IFoA work on decumulation pathways, including a forthcoming paper from the IFOA decumulation pathways working group

Default decumulation pathways, adequacy of contributions, CDC and Pooled Annuity Funds are examples of areas where actuarial expertise is particularly relevant and are among the topics where we would be keen to engage further.

**Additionally, the IFoA would like to draw attention to the impact of the current high inflationary environment on potential pension decision making in the UK**. Decision making about retiring, for example, delaying retirement to benefit from additional deferred revaluation, may not be something that members are able to consider - other immediate factors are more important.

Where people in the UK buy annuities, many may opt for level products that won’t have any inflation protection or, where they do, it may be limited (as it will be in most DB schemes relative to current rates of inflation). The issue of high inflation, while a problem in and of itself, may also be highlighting other issues that may be deteriorating the position of pension savers in the UK. It may be that while people are concerned about inflation, most don’t have the luxury of doing anything about it (e.g., if they only have a small DC pot, they may still choose to buy a small level annuity) and, this can make low pensions savings even more inadequate. At the same time, it will remain the case that people are more likely to reduce pensions savings if they can’t afford to continue with them due to higher cost of living.

The IFoA acknowledges that the above forms only part of the story that may be unfolding for pension savers in the UK due to the impact of high inflation. Other issues like general inflation proofing and partial referral in terms of drawdown are other examples that may require further investigation.

The IFoA is looking at this issue through a range of working groups and would be happy to engage with DWP in due course.

END.

1. https://www.gov.uk/government/publications/pensions-tax-pensions-advice-allowance [↑](#footnote-ref-1)
2. <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf> [↑](#footnote-ref-2)
3. <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf> [↑](#footnote-ref-3)
4. <https://www.aon.com/unitedkingdom/retirement-investment/defined-contribution/defined-contribution-pension-survey-2021.aspx> [↑](#footnote-ref-4)
5. <https://www.actuaries.org.uk/learn-and-develop/research-and-knowledge/actuarial-research-centre-arc/recent-research/optimising-future-pension-plans-phase->i [↑](#footnote-ref-5)
6. <https://www.actuaries.org.uk/system/files/field/document/TGRT_Campaign_Recommendations_FINAL.pdf> [↑](#footnote-ref-6)
7. https://davidhumeinstitute.org/latest-publications/2022/2/15/dhi-teams-up-with-the-institute-and-faculty-of-actuaries?mc\_cid=910b0d6968&mc\_eid=UNIQID [↑](#footnote-ref-7)