Association of Professional Pension Trustees
First Floor (129)
40 Gracechurch Street
London EC3V 0BT

secretariat@appt.org.uk

www.appt.org.uk

25 July 2022
Abigail Coskun
Department for Work and Pensions,
Caxton House, Tothill Street
London SW1H 9NA
caxtonhouse.retirementdecisionscallforevidence@dwp.gov.uk

Dear Abigail

Consultation on Helping savers understand pension choices

I write on behalf of The **Association of Professional Pension Trustees (APPT)** in response to your consultation on *Helping savers understand pension choices*. The comments below are in the form of general comments – in the Appendix that follows we make some additional points on questions posed in the consultation.

The APPT acts as the representative body for trustees of occupational pension schemes who fall within the Pension Regulator's description of professional trustee as set out in its August 2017 policy document. The APPT maintains a set of standards for professional trustees to improve and provide assurance on the quality of professional pension trustees. The APPT also oversees the process by which members may become Accredited professional pension trustees.

The APPT acts as the collective voice of the profession and we estimate that our members work as trustees on over 2,000 schemes of all types, including a large number of trustee boards for defined contribution (DC) schemes including DC master trusts. Our members each typically work on multiple appointments and in total are responsible for managing schemes with assets of over £800 bn.

Key points in our response

Our **key comments** on the consultation theme are based on the general feedback from our professional trustee members:

- Scheme members feel that the options available to them are complicated and they do not feel well prepared to make the decisions they are faced with
- Drawdown is not always available which leads to an implicit steer towards annuitisation especially if support is offered in this area
- Support for members as they move through their 40s and 50s needs to improve but must be kept simple to engage members. This is the period

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when they can influence their retirement outcomes the most both in term of amount and in terms of type of option

- Default funds are used mostly through inertia. Whilst default funds serve a purpose, they are designed to meet the needs of the scheme as a whole rather than any specific needs of individual members.
- Options for advice are limited (i.e. Pensions Wise guidance or advice that incurs recurring fees). We believe members can make sensible choices with the right information and education, but the current limited guidance and advice options should be developed further to help members with their decisions. "One-off" financial planning at limited cost has now been legislated more or less out of existence because of the FCAs insistence that IFAs review annually – so many now only offer an annual "retainer" fee basis.
- There needs to be more flexibility for investment options, such as the use of investment pathways which would help introduce consistency across pensions structures. However, we do not wish for members' funds to be used to cover the cost of implementing this change.
- The alternative of CDC is at an early stage of development but requires scale which will likely be a barrier. In particular, there will need to be a well-established CDC scheme under the banner of a master trust for CDC to become a viable alternative to the current DC options.

See the attached Appendix for further comments.

Your sincerely

Vassos Vassou
Council Member, on behalf of the APPT Council
Association of Professional Pension Trustees

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Appendix: APPT further comments on consultation on Helping savers understand their pension choices

Consultation: questions for schemes

4. What information does your scheme currently provide to its members in the run up to retirement? When and how do they receive this?

Members of the APPT advise trustee boards of a wide range of occupational schemes, including DB, hybrid schemes, trust-based and contract-based DC schemes and Master Trusts.

One of the professional trustee's key roles is to ensure that schemes observe the governance and communications with members required under the legislation applying to those schemes. Over the years, these requirements have increased by dint of regulatory rules and 'best practice' guidance, often adding to the complexity of communications being made available to members.

Whilst only an estimate, we and others have estimated only around 50% of occupational schemes presently have appointed professional trustees, so – although the growth in appointments is growing at double-digit percentages each year, many schemes – notably smaller ones – do not have professional trustees to guide their lay trustees in running their schemes. It seems likely that these schemes will exhibit fewer of the communication initiatives that have blossomed in those schemes where communication, as members approach retirement, has been enhanced beyond the bare minimum to meet statutory requirements.

The communication vehicles most often seen by schemes in the run-up to retirement are:

- Booklets providing guidance, often featuring examples, of the options available as members approach retirement
- Web-based 'what if?' communications, often attached to the scheme's website
- Pre-retirement videos
- Pre-retirement workshops for members nearing retirement (or volunteering for early retirement)
- Access to guidance from in-house pension staff or, less frequently, employers offering to provide access to independent financial advice in the run-up to retirement (and meeting the cost)

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- 'Wake up' packs and reminders to those reaching key dates in the run-up to retirement, including those when de-risking may be taking place under default arrangements.

5. If your scheme has received any feedback from members, or has results from any 'test and learn' activity relating to pre-access communications, what have you learned?

Many large and mid-sized schemes (and their sponsors) have undertaken member surveys seeking feedback on pension communications. It is difficult to make any general observations as the nature of each scheme and its communication initiatives are different. However, as we observed on the first page of our response:

- Members are often confused by both the volume of material and the complexity of their pension arrangements. Whilst legislators and regulators have acted with the best of intentions to protect members' perceived interests, the net effect – even where schemes have endeavoured to communicate effectively – has often been to 'turn-off' member engagement.
- The different types of pension schemes that many individuals have been members of can have very varied ways of communicating with them, with quite different rules about when and how benefits can be taken. This adds to members' confusion.
- It may be that the eventual launch to members of pension dashboards will improve communication of pension benefits to members and prompt those moving towards retirement to take action, but there remains a real danger that the problems identified above will continue to cause and maybe even exacerbate members' confusion.

6a and 6b. What information do members need in the run up to retirement such as from ages of 40-50 and from age 50?

It is dangerous for members (and those who advise them) to suggest that the period running up to age 40 is not as important, or even more important, than the period ahead when members first may be considering seriously their income in retirement.

The beauty of compound interest is that savings made in the early years are likely to place a member, looking at the future at age 40 or 50, in a much better place than they might have expected from the modest savings made in those early years.

Whilst this point is made by schemes in their literature and is echoed by advisers and the personal finance media, all too often members do not take the advice on

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board. This may be because of their other commitments early in their working life, but the success of AE in capturing modest savings from a raft of new pension scheme participants, shows that there is an ability to make progress, even amongst younger savers.

Age 40-50: **Members should be provided with details of the options available to them under their schemes and should be encouraged to take guidance**. A first need is for members to be signposted to 'easy-to-read' material the scheme provides to kick-start a series of actions. From this, members need to be encouraged:

- To **begin to assess what income they need in retirement** to sustain an acceptable lifestyle, taking account of factors such as inflation over the intervening period. Initiatives such as the PLSA Retirement Living Standards and other online budgeting websites are a useful innovation
- To then know what the **value of their current savings is** and **their projected benefits at retirement.** This should come from their schemes' annual benefit statements and – in the future – supported by pension dashboards featuring their complete 'portfolio' of schemes and benefits
- With the above known, **members then need to consider what the impact of saving more could achieve** in closing any gap there may be between the income they feel they need and the projected benefits they are currently on course to achieve
- When the above has been considered, **the importance of reviewing the individual's target retirement date may be needed**. Whilst members can access their pension from age 55 (increasing to age 57 in 2028), it may be that a 'hoped for' retirement age has to be updated in the light of where an individual stands in relation to the retirement income they feel they need.

  A later retirement date, with more years of at work income, may be enough to 'balance the book'. In particular, for individuals in DC schemes invested in a lifestyle or target date strategy, de-risking (and the potential loss of investment growth) will begin based on the member's recorded target retirement date, and as such it is critical that this reflects the individual's changing needs.

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Age 50 and above: A continuation of the above review on an annual basis, with greater emphasis as the member moves to his or her target retirement date on:

- Helping members with access to guidance and advice, particularly where the latter is financially supported by the scheme or the sponsor. It is disappointing that "one-off" financial planning at limited cost has now been legislated more or less out of existence because of the FCAs insistence that IFAs review annually – so many now only offer an annual "retainer" fee basis .
- **The detail of retirement options** – when and how benefits can be taken, including taxation issues.
- This may also be the time that members are reminded of the issues raised by transferring benefits from one scheme to another – possibly as part of a consolidation process – and the dangers presented by pension scams.

7. What other support, aside from the information you have already told us about, does your scheme currently provide to members at the point at which they access their pension and after they have accessed their pension?

There is a huge variation in information provided to members of schemes where professional trustees are appointed.

Same answer to Q8 – 10.

We would note, however, that in trust-based DC schemes, once the member has accessed benefits, any further communication usually ceases. This is in part because very few trust-based schemes offer in-scheme drawdown.

11: Should Nest be able to deliver the full range of income solutions for members unwilling or unable to access decumulation options without support?

Yes.

12. What products or lifestyle strategies should providers give?

Trustees value flexibility across product types and investment options. Given the difficulty in engaging members in pre-retirement investment choices, we support the continued use of default arrangements for investments (including post-retirement pathways).

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14. How could CDCs work in practice in the DC decumulation market?

CDC may be able to offer an attractive option for some in the decumulation market. It could provide an efficient way to turn a savings pot into income, through more efficient investment strategies with a higher risk budget than the typical annuity provider, without the individual member risking running out of money in drawdown.

However, CDC is at an early stage in its development and cannot be offered without further legislative and/or regulatory changes designed to widen its availability. Whilst it will probably remain a choice beyond those with very small pots or those preferring the greater flexibility offered by full drawdown, it may in time offer a useful additional decumulation option to savers.

15. How do you envisage the decumulation landscape in the trust-based pensions market developing?

We expect a broad range of simple, low-cost drawdown products will be offered as decumulation assets reach scale and the market becomes commercially appealing to providers.

We also see a role for CDC schemes in decumulation (see above).

16. In your opinion, would a structured solution in the style of investment pathways benefit members with trust-based pensions, and why?

Around 90% of trust-based pension schemes members are invested in a default investment arrangement during the accumulation phase – with no need for them to make any active decision. There would seem value in mirroring investment pathways arrangements post-retirement, but this development would require some careful consideration.

17. If the government placed requirements on trustees to implement investment pathways, what would this mean for your scheme and a functioning competitive market?

In our experience, there is rarely an in-scheme post retirement decumulation vehicle in place, so the impact would be considerable and, in our view, should be the subject of further discussion between the industry and Government before any such action is taken. Whilst such a move could lead onto innovation, there are legitimate concerns from trustees (and employers) about being seen to "recommend" a third-party product for decumulation and, of course, this would present a further governance

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challenge at a time when many trustees are groaning from the extra load being placed upon them.

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