

# Consultation Response

## The stronger nudge to pensions guidance

Financial Conduct Authority, CP21-11

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## **About this consultation**

This consultation by the Financial Conduct Authority (FCA) looks at its proposals to introduce the 'stronger nudge' approach to increasing take up of pensions guidance, prior to savers accessing their pension pots. This will put into practice the measure contained in the Financial Claims and Guidance Act 2018 to encourage more people access the Pension Wise guidance service.

## **Key points and recommendations**

- The Financial Guidance and Claims Act 2018 gained Royal Assent more than three years ago, and we are still awaiting any measure to be put in place.
- Pension Wise has proven to be a very effective service with 94% of users being very or fairly satisfied, and 72% changing their plans as a result of having an appointment.
- The 'stronger nudge' trials yielded very disappointing results, generating only a small increase on the proportion of people using the service. It is disappointing that the Government and FCA have seemingly chosen to implement a measure that will still leave the majority of savers without the support they need.
- We believe an auto-appointment process should be created, whereby from age 50 savers are auto-enrolled into Pension Wise, a process which is repeated annually until they either opt-out or take up the offer.
- This is the only way to make Pension Wise usage "the norm", as the Pensions Minister recently confirmed the Government's aspiration to be. It should be piloted as soon as possible.
- The nudge should be delivered earlier in the decision-making process, and on more than one occasion if appropriate. It is too late to wait until the saver has already made their decision.
- With many people moving into drawdown accounts, many savers will require ongoing tools and support to manage their money throughout their later life. The FCA should work with the Money and Pension Service to develop an appropriate response – the guidance intervention should be the beginning of a process, not just a one-off.

## About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

## Introduction

The 'freedom and choice' pension reforms have radically changed the landscape for pension decumulation. While no longer having to purchase an annuity is welcome for many savers, the difficulty of having to choose an appropriate retirement income product in a notoriously complex and un-competitive marketplace is an albatross around the neck of many DC savers. The majority of people have not previously interacted with their pension, have very limited knowledge of their options or industry products, and are laden with behavioural biases that affect their choices.

Age UK's 2019 report 'Fixing the Freedoms' identified that consumers are now expected to:

- access Pension Wise guidance or seek independent financial advice
- maximise state pensions and means-tested benefits
- gain a full picture of all pension and other assets
- consider merging small pots
- be aware of taxation
- consider using DC pensions to repay expensive debt
- maximise income from other financial assets
- decide on which retirement income product they want and whether they prefer the lower secure income from an annuity or the potential for a higher income from income drawdown balanced by the risk of running out of money
- take difficult decisions about income drawdown including where they should be invested and how much they want to withdraw each year, reviewing their choices regularly to ensure that they are on track.
- shop around for an annuity and declare medical details to qualify for a higher rate.<sup>1</sup>

Fixing the freedoms concluded:

*“The Government and the FCA cannot expect that the market will deliver innovative, appropriate and good value products for these consumers. There needs to be a far more proactive approach to ensure that these consumers get a good deal and that when a market storm hits it does not destroy trust in pensions and the hopes of thousands of consumers for a comfortable retirement. The onus should be on Government to make it easy for people to take reasonable decisions, through increased use of default options.”*

A major part of this is ensuring people understand their options by receiving advice or guidance. As paid-for, regulated financial advice is not an option for most people, it is imperative that Pension Wise becomes “the norm”, as the Pensions Minister agreed it should be.<sup>ii</sup>

We are very concerned that at present only 14% of pots are taken through Pension Wise prior to being accessed – as this is only a per pot measure, the actual figure for individuals taking guidance before access is likely to be even lower.

However, as the user evaluation clearly shows, Pension Wise delivers a high quality and valuable service that benefits non-advised savers as they come to access their pension savings:

- 94 per cent of appointment users were very or fairly satisfied with their overall experience of Pension Wise (77 per cent of whom said very satisfied and 18 per cent fairly satisfied);
- 88 per cent of appointment users said Pension Wise helped improve their understanding of their pension options;
- 70 per cent of Pension Wise users correctly answered eight true/false statements relating to their pension options compared to 43 per cent of non-users; and
- 95 per cent of Pension Wise users said their appointment left them feeling very or fairly confident in their ability to avoid pension scams, compared to 79 per cent among non-users.<sup>iii</sup>

Given its effectiveness, it seems eminently sensible that Pension Wise is a key part of the solution to helping improve savers’ outcomes, and we believe that the majority of consumers should be using the service. The ‘stronger nudge’ trials yielded very disappointing results, with the most successful outcome nudging only eight per cent more savers into Pension Wise than the control group. This still leaves a majority of savers taking extremely complex decisions without any appropriate support.

The Financial Guidance and Claims Act gained Royal Assent on 10 May 2018, and more than three years later we are still awaiting the implementation of a solution that helps more people receive guidance from Pension Wise.

As the ‘stronger nudge’ barely scratches the surface, we believe an auto-appointment service should be piloted and evaluated as soon as possible. This would harness inertia in

much the same way that auto-enrolment has, while allowing savers to opt out if they do not need guidance.

The Association of British Insurers has recently backed proposals to test this approach:

*“Providers have reported that nudging to guidance is more effective when customers are considering their options, rather than when they have already made a decision. Making the process as easy as possible for customers, including automatically booking appointments for them, should also be explored.”<sup>iv</sup>*

We are disappointed that the FCA has resisted exploring this so far. Surely helping savers get better retirement outcomes is exactly what Government and regulators should be working towards?

With sections of the industry now coming out in support we are optimistic that the ‘stronger nudge’ can be built on and developed into a fully functioning auto-appointment system.

## **Consultation questions**

*Q1: Do you agree with our proposed approach on the trigger for the nudge?*

We are doubtful that the trigger as described will have much impact on people using Pension Wise. This should be available for savers and promoted to them appropriately from age 50, the soonest time they are eligible for an appointment, and in line with developments around wake up packs. Waiting until someone has made a decision on what to do with their pension savings is too late, which will lead many people to decline the offer of an appointment. The trigger should be delivered every year until the pension is accessed.

Because of the difficulties the trigger will have in overcoming behavioural biases, we believe that only an auto-appointment system, that harnesses inertia, would deliver results sufficient to make using Pension Wise “the norm”.

*Q2: Do you agree with our proposals to incorporate the delivery of the nudge into step 1 of our existing retirement risk warning rules?*

Yes, in the context of the proposals as set out in the consultation paper.

*Q3: Do you agree the explanation of the nature and purpose of guidance does not need to be prescribed?*

No. This approach raises concerns that too much flexibility coupled with a lack of sufficient regulatory oversight will allow providers to game the system and find a way of subtly pushing savers towards the outcomes desired by the provider. It is an essential requirement that any guidance, or the process leading up to it, is impartial – to achieve this there needs to be a significant degree of prescription.

However, arguably more important is the monitoring that the FCA will need to do to check that the approach is working. We urge the FCA to ensure that such monitoring is properly resourced, and transparent so that consumers can see whether their provider is doing a good job at helping its members. Action must be taken against firms who are not doing well.

*Q4: Do you agree with proposed approach to appointment bookings and opt-outs?*

No. As noted in the introduction to our response, the pension freedoms have led to a number of risks for consumers. Nudging people is unlikely to make a significant difference, and we remain disappointed that the FCA has not looked more seriously at improving consumer outcomes, including working with the relevant Government departments. We hope that an auto-appointment system is piloted as soon as possible.

Although we are pleased the FCA acknowledges the risk of providers wanting their customers to opt-out in order to retain business, there is a significant amount of evidence that consumers have a low level of understanding about pensions, that the risks of taking the wrong choices are high and have long-term implications, and without sufficient action it will be impossible for most people to overcome natural behavioural biases – it is essential that all savers receive the appropriate level of support in their decision-making to overcome this.

The FCA's Chair, Charles Randell, outlined his concerns about pensions decision making when giving evidence to the Treasury Select Committee in November 2020:

*“This issue about people making poor choices when exercising the freedoms and responsibilities that have been put on them in the last 10 years, through a variety of changes in Government policy, is probably the one that I worry about most of all. The pensions dashboard, I think, is some way off, but it will be really important that the safeguards that help to slow down decision-making in these areas and to*

*signpost people to the best sources of guidance they can get are as strong as they humanly can be, because it is heartbreaking. I am sure your postbag is the same as mine, with people who write with absolutely heartrending stories of decisions they have made that have resulted in the loss of their life savings. One cannot ignore that. It has to be the centre of one's worry list."*

This view chimes with consumer research and our own experience, and explains why it is important that all savers should receive the appropriate level of support.

Monitoring will be important and there should be transparent quarterly reporting of all bookings, appointments made and crucially those that actually happen.

*Q5: Do you agree that where a consumer has previously been nudged and has confirmed receiving Pension Wise guidance, they do not need to be nudged again, unless the provider has reasonable grounds to believe that the consumer could benefit from receiving guidance again?*

No, receiving guidance from Pension Wise is beneficial at more than one point in the process, and there should be regular reminders even where the individual has already taken guidance.

It is also important to remember that accessing pensions is a journey for many people, rather than a one-off decision. The FCA's Retirement Outcomes Review found that a significant number of people were accessing their 25% tax free lump sum (TFLS), then failing to take appropriate action with the other 75%. There could be a gap of many years between the initial TFLS access and subsequent decisions, and Pension Wise would be appropriate at more than one point. Even if guidance is taken, offering more encouragement (or ideally a second opt-out appointment) is desirable.

Also, many people will be accessing pensions from multiple providers. This raises concerns that receiving several different nudges will be ineffective. A centralised process that can ensure that a saver gets the right nudge at the right time is likely to be more appropriate.

*Q6: We welcome views on what would be the most relevant data for us to gather, and the most effective and proportionate way for providers to gather and submit this information.*

As noted above, it is important to gather a breakdown of appointments completed/taken up in addition to the data suggested in the consultation paper.

We would also like to see a measure introduced of how many people shop around on the open marketplace, and what product choices people ultimately make. If data collection is too difficult, the FCA should conduct qualitative follow up research with savers who go through the stronger nudge process.

*Q7: Taking into consideration the issues discussed in paragraphs 4.4 to 4.6, we would welcome views and any supporting evidence on whether allowing consumers additional time to consider the opportunity to take-up guidance could further increase/incentivise the take-up of guidance in a way that encourages them to engage with their pension access decision?*

It is perhaps revealing that the consultation paper states that many people will be receiving guidance too late to make a difference, and so there is an argument that the full process, including opt-out, should be seamless. We are disappointed that the FCA is not placing greater emphasis on how to ensure that everyone receives their guidance in a timely manner, prior to having taken a decision. Age UK believe that Pension Wise guidance should be delivered as early as possible, with a possible second appointment at point-of-access for those who need it.

Slowing down the process of accessing a pension is an important mechanism for encouraging people to take guidance and/or better understand their options, and make a more appropriate decision. The FCA's own research suggests many people have either not heard of Pension Wise or are initially dismissive of the guidance approach,<sup>v</sup> and this group would clearly benefit having greater time for reflection.

We believe that both mechanisms proposed would have some positive effect. Providers may object on the grounds that their customers would blame them for the delays, but if this was the standard journey for everyone and the process communicated effectively we do not believe this would be a problem.

However, both of these would pale into insignificance compared to the positive effect an auto-appointment system would have on take-up rates, and we once again urge the FCA to pilot this solution.



*Q8: If you think it would increase the take-up of Pension Wise guidance, we would welcome views on how an opt-opt process could operate to further incentivise the take-up of Pension Wise guidance in a positive way?*

*Q9: What would be the implementation challenges or unintended consequences with this approach and how could they be overcome?*

As noted earlier in the response, it is clear that harnessing inertia to create an auto-appointment system would get far more savers to use Pension Wise. This approach would see DC pension savers automatically booked into Pension Wise appointments in the five years prior to becoming eligible to access their pension benefits. Repeating this invitation until the appointment is taken (or opt-out requested) would equip savers with the key information they need to think ahead effectively about their financial needs in retirement.

This approach would get people thinking about their pension options while they have time to investigate and consider them after using impartial guidance – having had the opportunity to discuss unfamiliar concepts and correct misunderstandings. For those savers who choose not to take up their appointment prior to the point of accessing their pension savings, they would then be defaulted to their appointment at that point. But always with the option to opt out should they absolutely wish.

We do not foresee any unintended consequences of this approach that would be detrimental to consumers. The guidance guarantee was always intended to be “the norm” and we are very concerned how the current low levels of take up seem to have become a benchmark – we need a much more aspirational approach from the Government and from the FCA itself.

Alongside this or a similar approach, communications should be carefully designed to both encourage take-up and discourage opting out. As noted earlier, this should be carefully prescribed to ensure providers do not game the system.

With any system that is introduced, the FCA will need to monitor consumer outcomes, both quantitatively and qualitatively – given the huge importance of decisions around pensions access we would hope this goes without saying and it is already part of the FCA’s plan.

*Q10: We would welcome views on whether and how an additional earlier nudge to guidance could be introduced. Please include comments and evidence relevant to the factors listed in paragraph 4.11, as well as an indication of the likely costs and benefits.<sup>22</sup>*

The FCA should pilot an auto-appointment approach as soon as possible. There is nothing in the Financial Guidance and Claims Act 2018 that prohibits this, or indeed the final adoption of such a solution, and so we urge the FCA to make this a priority over the coming months, especially as this pilot now has the support of the ABI and seemingly MAPS/MoneyHelper. The latter is responsible for running the existing Pension Wise service, would similarly lead on running the opt-out process.

*Q11: We would welcome views and any supporting evidence on how else we might do to increase the take-up of Pension Wise.*

*Q12: In this context, we would welcome views and any supporting evidence on what more we can do to support consumers to access the right information and guidance they need to help them make well informed decisions about accessing their pensions.*

Our 'Fixing the Freedoms report' identified a significant problem for drawdown customers as being that those who are non-advised do not have access to appropriate tools and support to make sensible decisions on an ongoing basis. Pension Wise can help alert people to these issues, and we would also like to see more support available, delivered through MAPS/MoneyHelper, to ensure that non-advised customers have somewhere to go for help managing their money. For example, advisers may use tools to balance creating an appropriate level of drawdown with sustainability for their customers. Similar tools should be developed and promoted through Pension Wise – ongoing support is also important and should be considered as part of a process following the use of Pension Wise.

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<sup>i</sup> Age UK (2019) Fixing the freedoms

<sup>ii</sup> [https://hansard.parliament.uk/commons/2020-11-16/debates/298AA028-D49E-4F07-A001-C483ADF38659/PensionSchemesBill\(Lords\)#contribution-2D61D1AA-0B7C-42ED-92E7-8368A055311C](https://hansard.parliament.uk/commons/2020-11-16/debates/298AA028-D49E-4F07-A001-C483ADF38659/PensionSchemesBill(Lords)#contribution-2D61D1AA-0B7C-42ED-92E7-8368A055311C)

<sup>iii</sup> <https://maps.org.uk/2020/10/05/pension-wise-service-evaluation-2019-2020/>

<sup>iv</sup> <https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf>

<sup>v</sup> Ignition House/FCA (2020), [Evaluation of the Retail Distribution Review and the Financial Advice Market Review Consumer research to inform the FCA's Review](#)