Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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By email: PensionsConsumerJourneyCFI@fca.org.uk and PensionsConsumerJourneyCFI@tpr.gov.uk.

Financial Services Consumer Panel response to Call for Input: Pensions Consumer Journey

Dear Sir/Madam,

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

The Panel is broadly supportive that the FCA and TPR are doing this work. The Panel's Vision for the market is as follows:

- There is a joined-up communications strategy by government, regulators and industry on pension issues;
- Guidance becomes a normal part of the consumer experience, with appropriate opt-outs available, and that personalised information is used to activate consumers to seek guidance at appropriate points in their lives;
- Consumers understand the options available to them, and are able to select an option based on their immediate and potential long-term needs;
- Consumers who are considering accessing their pensions for the first time receive high-quality, impartial guidance on the options available to them, including any tax implications and the risks of holding cash;
- Providers act in consumers' best interests when supplying advice and guidance and designing products;
- The wider society benefits from better informed consumers, including a reduction in the costs of fraud and scams, compensation, and welfare;
- There is improved consumer confidence in the pensions industry and a reduced risk of another mis-selling scandal;
- Where things do go wrong, it should be clear to consumers how to complain, and they should receive appropriate redress and compensation;
- Where there are several sources of redress or compensation it is clear to consumers which is the most appropriate for them;
- Employers receive appropriate guidance to help them support their employees in relation to pensions; and
- Regulators should set clear measurable outcomes when considering appropriate interventions and should encourage appropriate use of behavioural insights to improve the effectiveness of policy interventions.

Our responses to the questions posed in the consultation are included at Annex A below.

Yours sincerely,

Wanda Goldwag

Chair, Financial Services Consumer Panel

ANNEX A

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 current touchpoints and communications identified in 3.10 miss three potential additions to the consumer journey:

- Communications on pensions associated with ending an employment but not retiring. This could include; how much consumers have saved over the course of their employment; the current value of these savings; next steps for consumers who want to consolidate different pots; the costs and charges associated with merging pots.
- A mid-life pensions health check to encourage people to take timely action.
- Communication about what to do if things go wrong and options for seeking redress.

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

We agree with the three overarching harms but note that these are issues that currently affect many consumers. Therefore, any mitigating actions will need to be structured to reflect the prevalence of these issues, in order to achieve effective change.

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

Suggestions by industry[1] that the root cause of poor consumer choices and outcomes lies with the behavioural biases of consumers are unhelpful because they infer that the consumer is largely responsible for navigating the pensions market and making sense of the various products and options available to them under a range of scenarios. A broader view suggests that a toxic combination of consumer inertia, a highly complex product, information asymmetry, and sludge practices deliver sub-optimal long-term outcomes for many consumers. While it is important that behavioural biases should inform policy interventions, they are not the only cause of poor outcomes and have, in isolation, limited capacity to effect the scale of change needed. We would welcome a much more coherent and systematic focus on the full range of potential interventions across the market, products, and services to ensure good outcomes for all consumers of pension products.

It is also important that the list of behavioural biases considered is comprehensive. The list of behavioural biases set out in the call for input misses several biases that will impact people's choices in relation to pensions, including:

- Loss aversion (as opposed to risk aversion). In making decisions people typically place more weight on potential losses than they do potential gains.

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[1]https://www.abi.org.uk/globalassets/files/publications/public/lts/abi_bro3598_retirement_market_v7.pdfmel4.pdf

- Availability heuristic. Judgement on risks are informed by how readily people can imagine the risk occurring.
- Affect heuristic. Judgements are influenced by how they make you feel.
- Presentational effects. How choices are framed can completely reverse people's preferences for otherwise identical choices.[2]
- Information overload, leading to the use of mental short cuts.[3]
- Choice overload, reducing the likelihood of any choice being made (even if more choice is seen as attractive).[4]

Behavioural biases are important and clearly influence consumer choices. An understanding of these biases therefore needs to be a key input into developing tools and policy options that will help improve outcomes. However, pensions are extremely complicated products for consumers to navigate, and the terminology used is often obscure. Therefore, the Panel believes that behavioural biases are not the only cause of poor outcomes.

The Panel endorses approaches that enhance engagement with pensions, and it is essential that the correct drivers of harm are identified to ensure the most effective solutions are designed.

Research commissioned by NEST offers some useful suggestions for framing the language of pensions in ways that resonate with consumers and are likely to improve engagement and outcomes. For example, individuals misinterpret 'default' as 'recommendation', and the phrase 'retirement income' has more salience than 'pot value'. Overall, the NEST report contains some useful points about how annual pension statements and general communications could be amended in ways that change behaviours.

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?

Employment in particular is an important structural issue. Small pension pots are largely driven by labour-market issues, as opposed to behavioural biases. It is likely that most individuals will end up with a multiplicity of pensions over their working life including work schemes and SIPP

The small pots project has created a pathway to test various options and evaluate which interventions are most likely to drive engagement and change behaviour. Dashboards could help, but their effectiveness is dependent on the responses of members to different interventions.

Industry, the regulators and Government will need to work together in this area to achieve good outcomes for consumers. The Working Group found administrative barriers to consolidating deferred small pots in the auto-enrolment market which will take time to

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[2] See Tversky, A and Kahneman, D, (1981) "The framing of decisions and the psychology of choice", Science, Vol 211, 453-458, for example.

[3] Simon, H.A, (1955) "A behavioural model of rational choice", Quarterly Journal of Economics, Vol 69, 99-118.

[4] Iyengar, SS, and Lepper, MR (2000) "When Choice is Demotivating: Can One Desire Too Much of a Good Thing?", Journal of Personality and Social Psychology, Vol 79, No. 6, 995-1006.

address. It also recommended a long-term savings default consolidator model to address consumer inertia and result in better overall outcomes for consumers.

The FCA should also consider the broader economic environment and potential causes of financial exclusion. The consequences of Covid-19 have adversely affected people's financial resilience, causing some to take early retirement and others to delay retirement due to the negative affect on their financial circumstances. In addition, interest rates in major economies being at a historic low for a protracted period will affect returns in both the short and longer-term.

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?

It is important that regulators develop a systematic and coherent approach to market, product and service issues. The Panel would like to raise several other key drivers of harm:

- Inadequate communications across the Pensions industry, and throughout the pension life-cycle.
- Inadequate access to timely, good quality, impartial guidance so that retirement options and risks are clearly explained and understood.
- The lack of effective triggers to persuade people to review their retirement plans at regular intervals or life events to enable them to understand likely outcomes, and adjust their approach if necessary.
- A lack of transparency over commissions. The Panel encourages a 'menu' of adviser costs and fees to be presented to consumers in pounds and pence so that they understand what they are paying for in a clear and comprehensible way. This should also contribute to higher engagement.
- Lack of competition and innovation. For example, the annuity market is highly concentrated, with the top five providers accounting for 80% of purchases. This affects not only choice but also price and quality.
- The choice of a low default-contribution-rate that is unlikely to meet people's expectations at retirement.

These factors undermine consumer confidence and contribute to poor outcomes.

Further research is needed to understand whether individuals are making fully informed decisions when they first access their pensions and whether they are at risk of poor outcomes in the longer-term.

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?

No comment on data.

As set out in answer to earlier questions, the Panel considers that purely harnessing behavioural insights will not be enough to address problems in the pensions market. However, where behavioural insights are used, the Panel considers that leadership on this should come from regulators not industry, because the focus needs to be on helping people, not helping profitability. The importance of ensuring good consumer outcomes means that regulation should also ensure that firms within the pensions industry have a duty of best interest, in order to counteract biases within the industry.

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?

One option would be for people to be auto-enrolled into a mid-life financial health check, in the same way that people get prompted by GPs to undertake various health checks when they reach 50.

Pensions are complex and consumers need a basic level of information to understand their retirement income and what type of lifestyle this is likely to support (in real terms) at the point they retire.

The information required should include a set of appropriate scenarios, a retirement budget planner, along with a tool that enables them to model their state pension, defined benefit and defined contribution pensions together.

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

At the start of 2020 there were 5,980,520 businesses in the UK, but only 1,412,745 had at least one registered employee. Of those with at least one employee, 63.4% had fewer than 10 employees and 78.4% had fewer than 50 employees. The vast majority of business are therefore very small and are unlikely to have any expertise in pension provision.

Although TPR signposts its website in its communications on auto-enrolment, the information provided is limited, meaning more help and guidance could be useful. The type of guidance that might help includes guidance on different types of pension schemes employers can choose; what terms like Master Trusts mean; the types of costs and charges they can expect to pay; and industry comparisons of costs and charges to allow employers to get a better sense of whether they are being offered a good deal or not. Thinking of other ways to help small firms that lack the capacity and resources to undertake the necessary governance would also clearly be helpful.

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?

As the vast majority of firms are small and unlikely to have any expertise in pensions, it is unrealistic to expect them to provide a significant degree of support to scheme members. However, they might be able to pass on links or booklets to individual employees. This distribution should be mandated and timed to align with key events in the employee’s life such as joining the firm, promotion, significant birthdays etc.

HMRC might also be able to play a role, by including relevant information in its communications with consumers and firms.

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

Pensions, like many areas of financial services, have an ‘alphabet soup’ of organisations responsible for regulating or dealing with different aspects of the process. This is not just the FCA and TPR, it also includes the TPO, FOS, MaPS and PensionWise (soon to be MoneyWise). This inevitably leads to confusion, meaning thinking about how consumers (and employers) access the system as a whole, and how to make this more streamlined, would be helpful.

If consumers don’t make contact or give up, because they don’t know who to turn to, or don’t fully understand their rights or how to improve their situation, this can lead to significant harm.

The panel would support a strategic review, led from the consumer’s perspective, of the regulatory family relating to pensions and retirement with the purpose of simplifying and streamlining the footprint and making it easier for consumers to understand, navigate and engage with the appropriate body at the relevant time.