House of Commons Library

Debate Pack

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Take up of pensions guidance and advice

Summary

There will be a Westminster Hall debate on the take up of pensions guidance and advice on Tuesday 1 March at 9:30am. The debate will be led by Nigel Mills MP.

This briefing contains background information, parliamentary and press material, as well as suggested further reading which Members may find useful when preparing for this debate.

1 Background

Nigel Mills MP set out the purpose of the debate in a statement on the Parliament site, as follows:

> I am leading this debate to request that the Government support or sponsor trials to default people nearing retirement age into the free Pension Wise service provided by the Money and Pensions Service.
>
> Take up is currently very low, and while the Financial Conduct Authority have plans to increase it a little, there's no target set and I have no expectation that they will get to any sizeable level.
>
> If access to the service isn't improved, some people may get scammed out of their savings, but probably a bigger cohort just opt for the easiest decision without understanding the range of options open to them.[1]

1.1 Advice and guidance

Individuals looking to make decisions about their pensions can seek both advice and guidance:

- **Advice** is a personalised recommendation and can only be provided in the UK by firms which are regulated by the Financial Conduct Authority and which are on the Financial Services Register.
- **Guidance** is a broader term including general information and signposting about pensions. Guidance does not include a recommendation but can be offered by any organisation.

1.2 The Pension Freedoms

In the 2014 Budget the Government announced a major reform in the tax rules which restrict the ability of those saving into a defined contribution (DC) pension to access those savings. DC schemes provide a pension pot based on the value of fund on retirement. The level of pension depends on factors such as the level of contribution paid and investment returns. The pension freedoms meant that, from 6 April 2015, people aged 55 and over would be able to make withdrawals from their DC pension pot "at a time of their choosing, subject to their marginal rate of income tax."[2] The broad options

[1] UK Parliament, Take-up of pensions guidance and advice Backbench business debate Nigel Mills MP

[2] HM Treasury, Budget 2014, HC 1104, March 2014, paras 1.156-66

available to a person accessing their DC pension for the first time are outlined below:

- **Annuity:** An annuity provides a regular income for life or a set period. The income from an annuity will depend on a number of factors
- **Drawdown:** Pension drawdown can provide a regular income by reinvesting it in funds designed for this purpose. The income is not guaranteed and varies depending on the fund's performance. The pension freedom removed the limits on the amount of income which can be taken from drawdown funds. Since February 2021 people choosing drawdown should be offered a choice of investment pathways.[3]
- **Cash withdrawals:** Cash withdrawals can be taken straight from a DC pension pot after age 55 with the remainder left untouched. Normally the first 25% of a fund withdrawn is tax free and the remainder is treated as taxable income.
- **Withdrawing whole pot as cash:** From age 55 a person can withdraw all of their pension pot as cash. Normally the first 25% of a fund withdrawn is tax free and the remainder is treated as taxable income.

People can choose one or a combination of the options above and they are not required to remain with one pension provider.

People with defined benefit (DB) schemes will receive a regular pension income, guaranteed by a sponsor. Unless they transfer out of their scheme, members of DB schemes do not usually need to make a decision about how they access their pension.[4] They may face decisions about when to access their pension and some schemes offer a lump sum alongside the regular income.

1.3 Pension Wise

A "guidance guarantee" was presented by the then Government as part of the introduction of the pension freedoms to support the increased flexibility given to consumers accessing their DC pension savings.[5] The guarantee entitled everyone with a DC pension fund to free, impartial guidance, which is provided through Pension Wise. The 2014 Budget stated that "The government recognises that under the new system it will be important that people are equipped to make decisions that best suit their personal circumstances."[6]

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3 Financial Conduct Authority, PS19/21: Retirement Outcomes Review: feedback on CP19/5 and our final rules and guidance, 7 April 2020

4 Further information is available in the Commons Library briefing paper Pension freedoms: transfers from defined benefit pension schemes

5 HM Treasury, Millions guaranteed the right to free and impartial guidance on their new pensions choices, 21 July 2014

6 HM Treasury, Budget 2014, HC 1104, March 2014

The Financial Guidance and Claims Act 2018 requires the Financial Conduct Authority and Secretary of State for Work and Pensions to make regulations requiring pension schemes to refer members to appropriate guidance.[7] The Act also enabled the creation of the Money and Pensions Service which is responsible for delivering Pension Wise.[8]

1.4 Stronger nudge to pensions guidance

In July 2020 the Money and Pensions Service published the results of behavioural (or "nudge") trials to increase the use of Pension Wise in line with the Financial Guidance and Claims Act 2018.[9] Excluding people who said they had already taken guidance or advice in the past 12 months, the trial found that 11% of people receiving the "stronger nudge" attended a Pension Wise appointment within 6 weeks, compared with less than 3% in the control group.[10]

In May 2021 the FCA launched a consultation on booking Pension Wise appointments for the schemes it regulates.[11] The consultation proposed including the most successful measures from the nudge trials into its rules. The final rules for contract-based pension schemes were set out by the FCA in a policy statement in December 2021.[12] When a consumer has decided, in principle, how to access or transfer for purposes of accessing their pension savings, the pension providers will be required to:

- refer the consumer to Pension Wise guidance
- explain the nature and purpose of Pension Wise guidance and encourage the consumer to take the guidance
- offer to book a guidance appointment and where the consumer accepts that offer, book the appointment or provide the consumer with sufficient information to book their own appointment[13]

Providers will also need to confirm and record if someone has opted out of Pension Wise guidance. The FCA's rules will come into force on 1 June 2022.

On 9 July 2021 DWP launched its consultation on the stronger nudge to pensions guidance covering occupational pensions and published its

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7 Financial Guidance and Claims Act 2018, part 1, section 18-19
8 Financial Guidance and Claims Act 2018, schedule 1
9 Money and Pensions Service, The Stronger Nudge: Evaluation Report, July 2020
10 As above
11 Financial Conduct Authority, The stronger nudge to pensions guidance, consultation paper CP21/11, May 2021
12 Financial Conduct Authority, PS21/21: The stronger nudge to pensions guidance: feedback on CP21/11 and final rules and guidance, 1 December 2021
13 As above para 1.23

response on 17 January 2022.[14] The Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022 were laid on 17 January 2022 and will come into force on 1 June 2022.[15]

Under the FCA's rules people in contract-based schemes could opt out of Pension Wise guidance in the same communication with their provider as it is offered.[16] Under DWP's regulations people in occupational pension schemes would have to opt out of Pension Wise guidance in a separate communication with the scheme unless a specified exemption applies.[17] The FCA have said that its rules "provide flexibility for providers who offer both contract and trust-based pension schemes to adopt DWP's proposed opt-out process where they consider it appropriate."[18]

1.5 Automatic guidance

On 18 January 2022, the Work and Pensions Select Committee published its report Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings.[19] Witnesses giving evidence to the Committee's inquiry, including the Association of British Insurers, said that automatic Pension Wise appointments should be trialled.[20] Both the Money and Pensions Service and Financial Conduct Authority told the Committee they would be willing to consider an automatic appointment trial. Concerns about automatic appointments were also raised, including savers having to attend multiple appointments and the cost of unattended appointments.[21] The Minister for Pensions and Financial Inclusion said that automatic Pension Wise appointments would require new primary legislation and the Department estimates that the cost of auto-appointments is between £45 million and £80 million.[22]

The Work and Pensions Committee concluded that Pension Wise is a "well regarded and under-utilised service" and that the proposals by DWP and the

14 Department for Work and Pensions, Stronger Nudge to pensions guidance, 17 January 2022
15 Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022
16 Financial Conduct Authority, PS21/21: The stronger nudge to pensions guidance: feedback on CP21/11 and final rules and guidance, 1 December 2021
17 Department for Work and Pensions, Government response: Stronger Nudge to pensions guidance, 17 January 2022
18 Financial Conduct Authority, PS21/21: The stronger nudge to pensions guidance: feedback on CP21/11 and final rules and guidance, 1 December 2021
19 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 18 January 2022
20 As above, para 71
21 As above, para 73
22 As above

FCA would "not be enough to make receiving pensions guidance the norm." The Committee made two recommendations:

> We recommend that the Government sets a goal for the Money and Pensions Service for the combined use of Pension Wise and paid-for advice when accessing pension pots for the first time. This goal should be at least 60 per cent and expressed in terms of individuals rather than pots. It could include an exemption for smaller levels of saving.[23]

And:

> We recommend that automatic Pension Wise appointments are trialled. The Government should initiate two trials: one with an appointment when a person accesses their pension for the first time and another at the age of 50, before they can access their pension savings.[24]

The Government's response to the Committee's report has not yet been published.

23 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 18 January 2022, para 74

24 As above, para 75

2 Press articles and blogs

Ros Altmann v the Plowman over 13 rounds,
Henry Tapper Blog
26 February 2022

"Who sells financial guidance - and who buys it?"
Henry Tapper Blog,
24 February 2022

Authorities must act to improve advice gap, study warns,
FT adviser,
23 February 2022

Timms: pension freedom issues should have been fixed at the time,
FT Adviser,
11 February 2022

Paul Lewis: Getting snarky,
Money Marketing,
8 February 2022

Rachel Vahey: Five key takeaways from the Work & Pensions Committee's report
Money Marketing
2 February 2022

The rise of defined contribution pensions,
Hargreaves Lansdowne,
2 February 2022

Pension Wise: MPs call for automatic pension help appointments,
BBC News,
18 January 2022

3 Press notices

Pensions guidance gap fuels £132bn savings shortfall
Social Market Foundation
22 February 2022

• More than two thirds of UK 50–64-year-olds don't know how much they'll need for retirement
• Only a fifth of 50–64-year-olds have spoken to a financial adviser about their pension
• Only 14% of people accessing a defined contribution pension pot for the first time seek free guidance from Pension Wise
A clear majority of people approaching retirement don't get advice or guidance on how to build up and use a pension, leaving many confused, anxious and at risk of missing out on a better quality of living in later life, a new study shows today

The Social Market Foundation think-tank said that gaps in knowledge and understanding of pensions and savings leave many people at risk of making inadequate preparation for retirement or spending pension pots unwisely.

The gap in the provision of good financial advice and guidance risks creating "real financial harm," the report said, with opinion poll data finding that only 31 per cent of 50-64-year-olds with a pension have a broadly accurate idea of the savings they will need to deliver their desired income.

The SMF report was sponsored by Phoenix Group, a retirement and savings business. The SMF retained full editorial independence.

The report also states on average, people approaching retirement age are almost £250,000 short of the pension pot they would need to deliver the pension income they want in later life.

The typical person aged 50-64 has pension savings that are 58% short of what they require, adding up to a total annual savings gap of £132bn across the country for those reaching retirement age. (*See Notes*)

The SMF research also showed that majority of people don't access either regulated advice from an Independent Financial Adviser about their pension (only 20% of 50 – 64-year-olds with a pension do) or free guidance available from the government's Pension Wise service (only 14% of those accessing a defined contribution pension pot for the first time do).

As a result, many lack understanding of how much they need to save or how best to use their pension in retirement, the SMF said. While some people feel very confident about their pension knowledge, many feel anxious and ill-informed.

The move away from defined benefit (final salary) pensions towards defined contribution schemes has and will continue to increase the need for better advice and guidance, the SMF said, since it will only increase the complexity of the pension landscape for many people.

The SMF, a cross party think-tank, called for an overhaul of the rules around providing financial advice and guidance in a new report published at a Westminster debate today. *(See Notes for details.)*

The report, *A Guiding Hand*, is based on extensive opinion polling and focus groups with people approaching retirement age. The report was sponsored by the UK's largest long-term savings and retirement business, Phoenix Group. The SMF retained full editorial independence.

Other key findings on what people know – and don't know – about pensions:

- Most households do not have adequate knowledge and support in navigating the complex pensions landscape. Only 20% of 50–64-year-olds have spoken to a financial adviser about their pension. Just 14% of those accessing a defined contribution pension pot for the first time use the Government's Pension Wise service, which aims to provide guidance on pension options, despite this service being free.
- People who do not get advice or guidance don't know how much they need to save. Only 31% of 50–64-year-olds with a pension have a broadly accurate idea of the savings they need to deliver their desired income. Two fifths (40%) of survey respondents reported not being confident in being able to meet their desired income in retirement, with 14% saying they are not confident at all.
- Getting advice or guidance makes people much more likely to understand the pension savings they need. Half (48%) of people who get advice have a broadly accurate idea of the savings they will need. The same is true of 35% of those that had used Pension Wise.
- Use of financial advice is much more likely than Pension Wise to encourage saving. 23% of people who took advice increased their pension contributions. Only 8% of people using Pension Wise did so.
- While Pension Wise is associated with improved knowledge, using it appears to make little difference to behaviour. Just over half (54%) of individuals that had used Pension Wise reported taking no action as a result of using the service. In contrast, the most frequently given consequence of speaking to a financial adviser about retirement was increasing levels of contribution into a pension pot (23%) and changing investment (20%).

Findings on the barriers to becoming better informed:

- Overconfidence prevents individuals from receiving support. In the Opinium survey, the most frequently cited reason for not speaking to a financial adviser was feeling financially knowledgeable enough to

take decisions without advice (28%), with this driven by men (34%) rather than women (22%).
- Lack of awareness about what is on offer also affects usage. Barely half (47%) of those aged 55-64 have heard of Pension Wise.
- Regulatory barriers are likely to be holding back provision of advice and guidance. Ambiguity around Financial Conduct Authority rules on (regulated) advice and (unregulated) guidance is making firms cautious of offering useful information about pensions.

Scott Corfe, SMF research director, said:
"The blunt truth about pensions is that many people don't know enough to make the decisions that would give them the retirement they want. Poor information will mean poor outcomes for too many people.
There is a serious gap in the provision of advice and guidance around pensions, and that gap leads to real financial harm.
Lacking an accurate understanding of what they will need for the retirement they want means some people will not save enough, and end up disappointed. Not fully understanding their options on the way they use their pension savings in retirement means that some people will not make the best use of that money."

Andy Curran, CEO Savings and Retirement, UK and Europe, Phoenix Group, said:
"The reality is the majority of people have to navigate the complexities of pensions on their own. SMF's report identifies the cost of the huge Guidance Gap and how millions of savers could be substantially better off if this gap was closed. While regulated financial advice sets a 'gold standard' for helping people, it is not likely to be the solution for the vast majority. Even the Government's free Pension Wise service is limited in its scope."
"Across Phoenix Group we have around 3.5million customers aged between 50-64 making some crucial financial decisions without the level of guidance we believe they need. This does not sit comfortably with us."
"Major initiatives over the past decade have encouraged pension savings – but saving more is than just one factor. We must now help people feel more comfortable in making financial decisions throughout their life to help them get better outcomes. It is time to close the Guidance Gap. "
"At Phoenix Group we are calling for a government-led Working Group to be set up to foster collaboration between the regulator, the advice community, providers and consumer groups to review the rules and address this challenge, so that millions more savers get to a better place, and a better retirement."

SMF's RECOMMENDATIONS

1. Pension Wise needs to be expanded, with a broader scope and new digital tools. Policymakers should explore the case for expanding the scope of Pension Wise in two key ways. Firstly, providing tailored guidance on the level of pension savings likely to be needed to achieve a given retirement income. Secondly, allowing all of those over the age of 40 or 45 with a defined contribution pension to book a Pension

Wise appointment, rather than just those over the age of 50, as at present. This would give individuals more time to correct for any inadequacies in their current retirement planning – for example by ramping up contributions into their pension pot or changing any non-pension investments.

2. Pension Wise's online offer needs to be improved, including through the provision of "robo guidance" and "robo modelling" that provides individuals with highly relevant information and a clear visualisation of the potential impact of different options on their financial position in retirement.
3. At a minimum, the FCA should provide clearer information on its current definitions, including more concrete examples of what constitutes "guidance" and "advice". This should include through provision of "gold standard" examples of guidance that is highly informative and actionable, without straying into advice territory.Ideally, the FCA should go further and adopt new definitions along the lines of those suggested by the Independent Review of Retirement Income. This would see two categories of information, guidance and advice: "personal recommendation" and "financial help", with the latter replacing everything that is not full regulated fee-based advice where the adviser takes responsibility for a recommendation. Such an approach would give organisations more confidence to offer enhanced forms of guidance without falling foul of regulation.
4. Using guidance or advice before accessing a pension should be made the default. Before accessing their pension pot, individuals should be requested by their pension provider to use some form of guidance and advice, and signpost individuals to a range of options, including online tools. As well as services offered by the pension provider, there should be signposting to Pension Wise and non-provider services, in order to build trust and give consumers choice. Individuals would have to explicitly say that they do not want support in order to access their pot without advice or guidance.
5. The Government needs to invest significant resource into a nationwide pensions awareness campaign which brings home the need for individuals to prepare for retirement, makes them aware of the complexity of the decisions they face when accessing their pension pot and signposts them to support. It should be delivered through a partnership between government, industry and the third sector, ensuring common messaging.

NOTES:

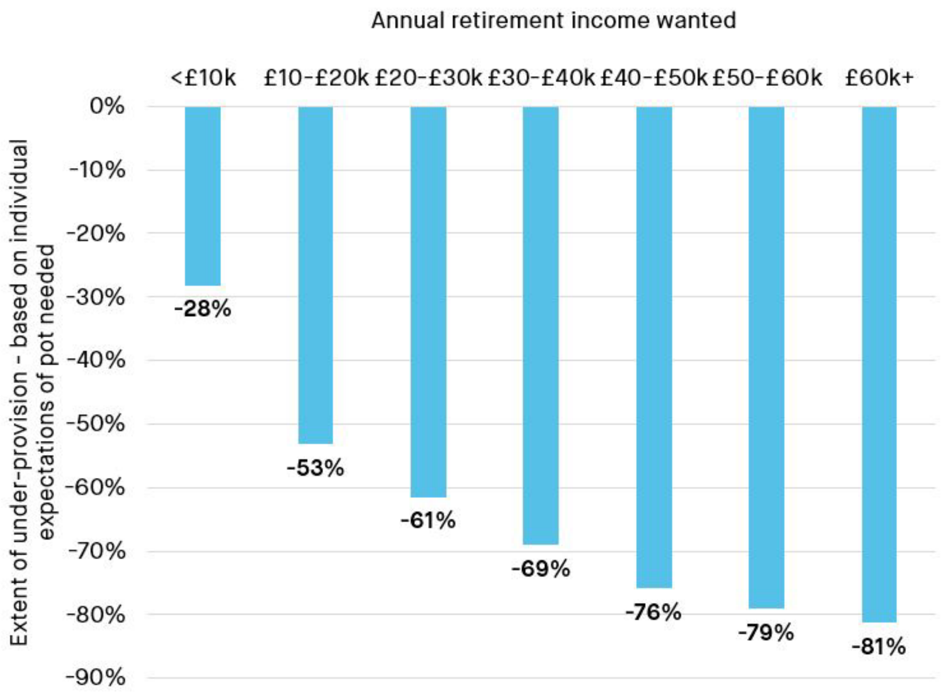
- The report, A Guiding Hand, will be published on Wednesday 23rd February 2022 at 08:30 AM on smf.co.uk/publications/a-guiding-hand/. The report will be debated at an online event at 10am on Wednesday 23rd February here: https://www.smf.co.uk/events/preparing-for-the-golden-years-how-to-improve-pensions-advice-and-guidance-in-the-uk/

- This report was sponsored by Phoenix Group. The SMF retains full complete editorial independence.
- Polling: SMF/Opinium surveyed 2,011 UK adults aged 50-64 with a pension, between November-December 2021. Online focus grouping was also carried out, with 30 respondents aged 50-64 with a pension, between 17th and 21st December 2021.
- MODELLING SHORTFALLS IN SAVING – Methodology

"On average people aged 50-64 have pension savings that are 58% short of what they require, adding up to a total annual savings gap of £132bn across the country for those reaching retirement age"
1) 58% – this compares what people think they need to save in order to meet their desired retirement income, with what an independent online calculator suggests would actually be the case.

- What people say they need – is calculated from Opinium / SMF survey and is split by people's stated desired retirement income.
- Stated desired retirement income is then inputted into online calculator (Pension Pot Calculator | Private Pension Growth Projection – Nutmeg) to determine a benchmark savings pot that might actually be required.
- 58% is the average difference between b and a.

2) £130bn under provision – multiplies the average under provision (2 above) and estimates of the number of people aged 65 with some personal pension wealth (using ONS data on population and Wealth and Assets Survey data on proportions with pension wealth).
Figure 11: Pension pot under-provision (as % of SMF estimated pension pot required) if individual expectations of required pots are met



Source: SMF modelling, Opinium survey. An online pension calculator was used to estimate the size of pension pot needed to achieve a given retirement income.

Table 1: Pension under-provision by region

	Average pension pot under-provision, %	Average pension pot under-provision, £	Total gap each year among those reaching age 65 (£bn)
UK	-58%	-£242,546	-£132
London	-63%	-£347,708	-£19
North West	-54%	-£212,532	-£13
South East	-58%	-£265,273	-£20
Yorkshire and the Humber	-59%	-£226,719	-£10
West Midlands	-55%	-£223,521	-£11
East Midlands	-55%	-£210,554	-£9
Scotland	-58%	-£222,533	-£11
East	-56%	-£221,682	-£11
South West	-57%	-£221,199	-£11
North East	-63%	-£236,640	-£6
Wales	-64%	-£279,113	-£8
Northern Ireland	-63%	-£272,629	-£4

Source: SMF modelling, Opinium survey. An online pension calculator was used to estimate the size of pension pot needed to achieve a given retirement income.

Lack of guidance for pension savers risks freedoms 'failure', MPs warn
House of Commons Work and Pensions Select Committee
18 January 2022

A Work and Pensions Committee report calls on Government and regulators to play more active role in supporting savers to make better decisions about their money.

- Read the report [HTML]
- Read the report [PDF 724KB]
- Inquiry: Protecting pension savers – five years on from the Pension Freedoms: Accessing pension savings
- Work and Pensions Committee

The Government should commit to trial of automatic Pension Wise guidance appointments and set a target of at least 60% needed to boost uptake of pensions guidance and advice

Automatic appointments with the Pension Wise service should be trialled as part of a renewed commitment from the Government to support people to make better decisions in retirement, MPs say today, with the pension freedoms at risk of being seen as a failure unless savers start receiving proper guidance.

The report on accessing pension savings from the Work and Pensions Committee concludes that although the extra freedoms introduced in 2015 have on balance been a success, many savers need more support than they currently receive.

During its inquiry, the Committee was told by the Financial Conduct Authority (FCA) that consumers describe pensions as a 'minefield' with even those who felt financially confident in other aspects of their lives struggling to understand how pensions work.

Pension Wise was established to provide the 'guidance guarantee' which was presented by the Government as a key pillar of the introduction of the pension freedoms, but the Committee concludes that, although it offers a good service, not enough people use it.

The Committee's report recommends:

- The Government sets a goal of at least 60% of people to be using the government guidance service Pension Wise from the Money and Pensions Service (MaPS) or receiving paid for advice when accessing their pension pots for the first time. At present, just 14% of defined contribution pension pots are accessed after the use of Pension Wise.
- The trial of automatic Pension Wise appointments. The Government should initiate two trials: one with an appointment when a person accesses their pension for the first time and another at the age of 50, before they can access their pension savings.
- The Pensions Advice Allowance, which allows £500 to be withdrawn from a pension up to three times in different tax years for advice, should be overhauled with the annual limit removed and MaPS and advisers encouraged to signpost its use.

Chair's comment

Rt Hon Stephen Timms MP, Chair of the Work and Pensions Committee, said: "From the introduction of auto-enrolment through to the continued shift from defined benefit to defined contribution schemes, the pensions landscape is in a constant state of change. It's little wonder therefore that—as the Government's own financial regulator recognises—people struggle to navigate the pensions minefield.

When the 2015 reforms were introduced the Government guaranteed that savers would be given the tools they needed to take advantage of the new range of options and make well-informed decisions. Seven years on, guidance remains the missing piece of the pension freedoms jigsaw.

Nudging savers will not be enough. The Government and regulators can no longer just sit on their hands as decision making becomes ever more complicated. They must end their timidity and be much more active in supporting people as they approach retirement. We know that those who use Pension Wise find it useful and often make different choices as a result. Every effort should be made to boost its use.

Without intervention to drive up dramatically the numbers receiving advice and guidance, savers will make poor decisions – and, in far too many cases, become scam victims – and the pension freedoms, far from living up to their name, will instead trap people in an increasingly confusing web of complexity."

Other main findings and recommendations

Options when accessing pensions (p12)

- Regulators should carry out a scoping exercise to establish the research and testing which could be undertaken on decoupling the 25% of a pension pot which is tax free from the rest of the pot and present their findings to the Committee.
- More people would benefit from choosing a mixture of annuities, lump sums and drawdown so MaPS and the FCA should look to increase the number of people choosing a mixture of retirement products.
- The Government should continue to support the development of collective defined contribution (CDC) schemes.

Pensions dashboards (p48)

- Pensions dashboards have the potential to be the most influential policy in helping people take good decisions when they first access their pension pots. The programme must be properly resourced to get implementation right and ensure there is up to date data for every pension scheme. No consideration should be given to allowing transactions through dashboards until they are well established.
- MaPS should develop a guidance service to help savers engage with pensions dashboards.

Supporting decision-making before accessing pension savings (p52)

- The Committee is not convinced that the gains from a pension statement season, where schemes are required to send out annual statements, justify the complexity of introducing it. The Government must be prepared to adapt or drop its proposals if the benefits cannot be demonstrated.

- The Committee welcomes the principle of a midlife MOT, where there is free support for people in their 40s, 50s and 60s to make plans about their futures, but calls on the DWP to undertake research to ensure the financial aspects of it works effectively.

Wider government policy (p57)

- The Government should do everything possible to ensure that future changes to the pensions system do not bake in additional complexity. The DWP and Treasury should work together to monitor progress of the pension freedoms.

The Committee's inquiry on accessing pension savings was the second part of a wider inquiry examining the impact of the introduction of the pension freedoms in 2015. The Committee previous published a report on pension scams and is currently examining how people can be supported to plan and save for retirement.

New measures introduced to protect savers and boost pension guidance take-up
DWP
17 January 2022

New rules to ensure savers are fully informed of their options when seeking to access their pension pots became law today (Monday 17 January).

The "Stronger Nudge to pension guidance" measures, which come into force on 1 June 2022, will require occupational pension schemes to present guidance as a routine part of accessing pension savings. They must also offer to book a Pension Wise appointment for the individual, unless they wish to opt out of receiving guidance.

Minister for Pensions and Financial Inclusion Guy Opperman said:

We want guidance to be available to savers when making decisions about accessing their pension pots.

These new measures support savers and further this government's commitment to ensuring people across the country have the necessary support and information they need to make informed choices about their financial futures.

The new regulations follow successful trials and a consultation launched in July 2021 by the Department for Work and Pensions.

Pension Wise is a government service that provides free, impartial, guidance to help individuals aged 50 and over consider the options for accessing their defined contribution (DC) pension.

At a Pension Wise appointment, trained specialists talk savers through their options and help them understand what their overall financial situation will be when they retire, supporting them to make the decision that's right for them.

Increasing the take-up of guidance will also help protect consumers from pensions scams, increasingly driven by fake websites and online adverts. The measures build on ongoing government work with industry, regulators and law enforcement partners to pursue fraudsters, close down the vulnerabilities they exploit, and make sure people have the information they need to spot and report scams.

The latest data from the Office of National Statistics (ONS) show pension saving has remained resilient throughout the pandemic, with total membership of occupational pensions up 7% on pre-pandemic levels. This includes an increase of 13% in private sector defined contribution membership.

Additional information

The government response to the Stronger Nudge to pensions guidance consultation can be found on gov.uk.

The new rules will come into force on 1 June 2022 and will apply to savers with occupational pension schemes aged 50 or above looking to access their defined contribution pension.

FCA to require pension providers to offer to book Pension Wise appointments for consumers

Financial Conduct Authority
5 May 2021

The Financial Conduct Authority (FCA) yesterday proposed new rules to require pension providers to 'nudge' consumers to Pension Wise in order to benefit from guidance before they access their defined contribution pension savings. This includes booking an appointment with Pension Wise if the consumer wishes.

Currently, pension providers are required to signpost consumers to Pension Wise guidance and encourage them to seek appropriate pension guidance or advice to help them understand their options. However, take up of Pension Wise guidance remains low.

The FCA's proposals mean consumers will be given a further opportunity to take Pension Wise guidance, including making the appointment arrangements for them, before they access their pension. This will make it easy for consumers to book an appointment while they are already engaged in a conversation about their pension. The proposals would implement a requirement set by Parliament to encourage consumers to take Pension Wise guidance.

Sheldon Mills Executive Director, Consumers and Competition at the FCA yesterday said:

"Pension Wise is a great service which helps people to understand their options when accessing their pension savings. We know that when people use Pension Wise they are happy with the service and find it helpful. However, few people are choosing to attend a guidance appointment.

"Our proposals will help to ensure that consumers get more information about the service, are further encouraged to use it and can have an appointment booked for them there and then."

The FCA is proposing that when a consumer has decided, in principle, how to access their savings, a provider must:

- refer the consumer to Pension Wise guidance
- explain the nature and purpose of Pension Wise guidance
- offer to book an appointment, and where the consumer accepts the offer, book the appointment or provide the consumer with sufficient information to book their own appointment

While Parliament has chosen not to make these appointments mandatory, there is a desire to increase take up. The paper invites additional ideas on how to increase the take-up of Pension Wise beyond this nudge at the point of access.

Notes to Editors

CP21/11: The stronger nudge to pensions guidance

The FCA is required by the Financial Services and Guidance Act 2018 to make rules for personal pension providers to 'nudge' consumers to Pension Wise. The Act requires DWP similarly to make regulations for trust-based schemes.

During the passage of the Act, the Government committed to undertake consumer testing to ensure the effectiveness of the nudge. We have drawn on this research in our own policy-making. To deliver on this commitment, the Money and Pensions Service (MaPS) commissioned the Government's Behavioural Insight team (BIT) to conduct consumer testing of two trial treatments. The results of this research were published in July 2020.

Drawing on the results from the consumer testing, we have been working closely with DWP on the wider policy considerations.

During the passage of the Act in 2018, Parliament debated mandatory (or default) guidance, but decided not to take this forward, having heard arguments that a compulsory appointment could be perceived by consumers as a barrier to accessing pensions or a tick box exercise, rather than a natural and beneficial part of the process of accessing pension savings. More recently, Parliament voted against an amendment to the Pension Schemes Bill, now the Pension Schemes Act 2021, which would have required pension scheme members to be offered a pre-booked Pension Wise appointment, 5 years before they are eligible to access their pension savings.

Millions guaranteed the right to free and impartial guidance on their new pensions choices

HMT
21 July 2014

Millions of people will benefit from a right to free and impartial guidance on how to make the most of the new pensions choices that come into effect in April 2015, Chancellor of the Exchequer George Osborne announced today (Monday 21 July).

This follows the government's consultation on how best to deliver the radical changes to how people access their pensions announced at the Budget.

In total 18 million people will be able to benefit from the changes to pensions should they wish to do so.

From April 2015 300,000 individuals a year with defined contribution pension savings will be able to access them as they wish when they turn 55 – subject to their marginal rate of tax.

This is the biggest change to how people access their pensions in almost a century, removing the effective requirement for many to purchase an annuity.

The consultation since the Budget has shown that these changes have been overwhelmingly well received, with individuals supporting greater freedom and choice, and the pensions and insurance industry ready for the challenge of creating new, flexible products, which better suit individuals' needs.

The government's response to the consultation today confirmed that:

- the guaranteed guidance on pensions choices will be provided by independent organisations rather than pensions schemes or providers
- even more people will be able to benefit from the new pensions flexibilities as the government will continue to allow individuals to transfer from private sector defined benefit schemes to defined contribution pension schemes – subject to two important new safeguards
- a new override will be introduced so that pensions schemes are able to offer individuals flexible access to their savings and the pensions tax rules will be amended to allow providers to develop new

> retirement income products that are tailored to the needs of individual consumers

Chancellor of the Exchequer, George Osborne, said:

It's right to support hard working people that have taken the long-term decision to save for their future and I'm pleased that the responses we had to our proposals on making pensions more flexible have been overwhelmingly positive.

We're making sure that people have the right support to make their own choice about how best to finance their retirement and I'm pleased to confirm that everyone with defined contribution pension savings reaching pension age will get free and impartial guidance on their range of available choices at retirement.

The government wants to ensure that guidance is trusted by consumers, and the vast majority, including most of the financial services industry who responded, said that consumers would not trust guidance given by a person or organisation with a vested interest in selling a financial product or service. It will bring together a range of delivery partners, including the Pensions Advisory Service (TPAS) and the Money Advice Service (MAS), which already provide guidance and support to consumers.

People with private sector defined benefit savings will continue to be able to transfer to defined contribution schemes (excluding pensions that are already in payment), alongside two new safeguards to protect both pension schemes and the individuals transferring out.

Guidance will be offered through a broad range of channels, including web-based, phone-based as well as face-to-face, and to remain free to the consumer will be funded by a levy on regulated financial services firms.

The Financial Conduct Authority (FCA) have also today published a paper which consults on the elements of the guidance guarantee for which the FCA will be responsible: setting and monitoring the standards with which guidance providers will have to comply, making and enforcing rules on how contract-based schemes signpost to the guidance services, and adjusting the FCA's existing conduct rules to support the introduction of the guidance guarantee and in response to the new flexibilities.

Two new safeguards are being introduced to protect both individuals and pension schemes in relation to defined benefit to defined contribution transfers: a new requirement for an individual to take advice from an impartial financial adviser regulated by the FCA before a transfer can be accepted; and, new guidance for trustees on the use of their existing powers to delay transfer payments and take account of scheme funding levels when deciding on transfer values.

4 Parliamentary material

[Protecting pension savers – five years on from the Pension Freedoms: Accessing pension savings]
House of Commons Work and Pensions Select Committee, HC 237 2021-22, 18 January 2022

[Letter to Rt Hon Mel Stride MP, Chair Treasury Select Committee from Nikhil Rathi, Chief Executive Financial Conduct Authority], 16 February 2022

[Pensions]
Asked by: Peter Grant| Scottish National Party
03 Feb 2022 | Written questions | Answered | House of Commons | 114796

To ask the Chancellor of the Exchequer, with reference to the Office of Tax Simplification's publication of May 2018 entitled Savings income: routes to simplification, whether he has made a recent assessment of the potential merits of its recommendations on (a) reviewing guidance relating to pension withdrawals and (b) the use of the emergency take code for personal pension lump sum withdrawals.

Answering member: John Glen |Treasury

The Government ensures that all savers have access to free, impartial guidance as they approach retirement age through MoneyHelper, provided by the Money and Pension Service (MaPS). MoneyHelper Pensions provides guidance on all areas of UK pensions to the public regardless of age. Information relating to the tax implications of pension withdrawals is available on the MoneyHelper website, and is covered in Pension Wise appointments.

The use of PAYE for those who access pensions flexibly operates as expected for many individuals. Where tax is overpaid tax because of an emergency tax code, individuals can contact HMRC and will be repaid within 30 days. Moreover, anyone who does not contact HMRC will be automatically repaid following the end of the tax year. This approach helps to minimise the number of unexpected tax bills for those who access their pension savings flexibly.

[Personal Pensions]
Asked by: Dr Matthew Offord |Conservative Party
05 Nov 2021 | Written questions | Answered | House of Commons | 65422

To ask the Secretary of State for Work and Pensions, what steps her Department is planning to take to help people understand their personal pensions in (a) Hendon constituency and (b) the UK.

Answering member: Guy Opperman |Department for Work and Pensions

We are actively working on supporting people to understand and prepare for retirement, with pension guidance provided by the Money and Pension Service available in all parts of the UK.

Alongside the introduction of the Pension Freedoms in 2015, we introduced Pension Wise guidance, now delivered through the Money and Pensions Service MoneyHelper Pension Wise (moneyhelper.org.uk). Pension Wise provides free, impartial guidance to savers aged 50 or above as they approach retirement and who are considering accessing their pension savings through pensions freedoms. In addition to Pension Wise, MoneyHelper Pensions (formerly known as The Pensions Advisory Service) provides guidance to individuals of all ages, across a wide range of issues.

To ensure pension savers consider receiving Pension Wise guidance before accessing their savings, we recently consulted on introducing a Stronger Nudge to Pensions' Guidance. The Government's response will be published in due course.

Simple annual benefit statements have also been introduced to help members better understand the information they receive from their pension scheme, including how much they have saved. Empowering consumers to see all of their pensions savings in one place for the first time and also what level of income they might provide in retirement, is a key part of our strategy to improve consumers' engagement with pensions. Pensions dashboards will put the individual saver in control, reconnect people with their lost pension pots, and transform how people think and plan for their retirement.

The Pensions Dashboards Programme's latest progress report was published in October 2021, and highlighted that dashboards remain on track for delivery in phase 4 of their delivery programme.

Financial Services and Vocational Guidance: Older People

Asked by: Stuart Anderson | Party: Conservative Party
20 Sep 2021 | Written questions | Answered | House of Commons | 47054

To ask the Secretary of State for Work and Pensions, what steps her Department is taking to ensure that people over the age of 50 can access personalised (a) financial and (b) careers advice.

Answering member: Mims Davies |Department: Department for Work and Pensions

In 2019, the government launched an online Mid-life MOT to encourage individuals to optimise re-skilling prospects and improve health and longer-term financial resilience. The Mid-life MOT acts as a vital prompt to engage more people in planning more actively for later life – both for work and retirement. It provides individuals in their 40s, 50s and 60s with signposting to information and guidance on wealth, work and wellbeing, providing a holistic assessment to ensure that individuals can plan for the later life that they want. We continue to work with organisations, and with employers, on how they can offer the Mid-life MOT.

The government also ensures that all savers have access to free, impartial financial guidance as they approach retirement. Pension Wise, part of the Money and Pension Service (MaPS), is available from age 50 and helps consumers understand their options and make informed decisions when accessing their pension savings. MoneyHelper Pensions, also provided by MaPS, provides guidance on all areas of UK pensions to the public regardless of age.

DWP published its consultation on draft regulations implementing a stronger nudge to pensions guidance in July 2021. These regulations propose requiring occupational pension schemes to ensure that members who wish to access their pension have either received, or opted out of receiving, pensions guidance.

5 Further reading

Further reading

Reports

A Guiding Hand: Improving access to pensions advice and guidance, Social Market Foundation, 23 February 2022

Lack of guidance for pension savers risks freedoms 'failure', MPs warn, House of Commons Work and Pensions Select Committee, 18 January 2022

Government response: Stronger Nudge to pensions guidance, DWP, 17 January 2022

The stronger nudge to pensions guidance: policy statement, Financial Conduct Authority, December 2021

Smarter signposting to pensions guidance: how can the Money and Pensions Service help with pensions guidance? Money and Pensions Service/Behavioural Insights Team, December 2021

Helping the UK recovery: Our corporate plan for April 2021 — March 2022, Money and Pensions Service, 2021 pp10-11

Pension Wise service evaluation Experiences and outcomes of customers using Pension Wise in 2019/20, Money and Pensions Service, 2020

Five years on: Future-proofing the freedoms, ABI, 2020

Pensions guidance: Pension Wise, House of Commons Library Research Briefing, September 2018

Budget 2014, HC 1104, HM Treasury, March 2014 pp42-46

Parliamentary material

Recent parliamentary material on pensions guidance

Websites

Money and Pensions Service

Pension Wise

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