The Money Charity Response – FCA Consultation on the Stronger Nudge to Pensions Guidance CP 21/11 (June 2021)

The Money Charity is a Financial Capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.[1]

We welcome the opportunity to respond to the Financial Conduct Authority's Consultation Paper 21/11 on the Stronger Nudge to Pensions Guidance.

In this response, we set out our Key Points, make some general remarks on the issues then answer the questions posed in the Consultation Paper.

[1] See box on back page.

Key Points

1. We support the delivery of an additional nudge but note that the current uptake of Pension Wise guidance is low in relation to the number of people approaching retirement, and that the FCA expects it to remain low even after introducing an enhanced nudge.[2]

2. In our view, for most pension scheme members, policy makers need to work on creating safe default pathways as a complement and alternative to informed decision-making. The majority of people, in our experience, would prefer a safe default to being forced to make a decision for which they are not prepared and do not have sufficient information.

3. The reason for seeking Pension Wise guidance needs to be better explained to scheme members. The nudge should focus on outcomes and be presented in a motivating way, for example by alerting scheme members to what they can gain from guidance and the perils that await the unwary, such scams, poor investments, high charges and adverse tax consequences. In our view, people will be more likely to seek guidance if they understand better what they might gain. Seeking guidance needs to feel interesting and necessary.

4. We agree there should be a cooling-off period to allow people to reflect on a decision not to seek guidance. We suggest that a follow-up email or letter be sent reiterating the nudge's message, with scheme members given a few days to think about this before confirming an opt-out.

5. In our view, the Pension Wise online offer could also be improved, giving a more interesting invitation to guidance and offering virtual appointments via one of the generally used platforms (Zoom, Meet, Teams etc.) It should also describe what will happen during a Pension Wise appointment, giving an overview of what the adviser will cover and how this will benefit the person seeking guidance.

6. The online offer should include a guidance tool that offers substantive guidance without the need for an appointment, should the consumer prefer this.

General remarks: lessons from our pension workshops

One of the products delivered by The Money Charity is pension workshops for employees. These are organised via participating employers and take place in employer time or over lunch breaks. Typically, they are a series of one-hour sessions, which cover the pension basics and discuss how to make pension plans in terms of the lifestyle choices people

[2] Consultation Paper, pages 8 & 9.

wish to make. We use an interactive style, based on active learning methods, as these have been proven to have the best educational outcomes.[3]

One of the key things we have learned from this work is the low level of awareness of how the pension system works and people's individual pension entitlements. People often have little idea of what they will get even from the State Pension, let alone the accumulation of their various occupational pensions. A key activity in our workshops is taking people through a "pension calculator" (we use one available for free from a large pension company) to show exactly what their retirement income trajectory looks like. People often realise at this point that they are heading for a much lower retirement income than they hoped or planned for. We then discuss options for boosting retirement income, principally via increased savings.

There is a similar lack of knowledge about decumulation options, with many people finding the jargon and reality of the pensions system complex and mystifying. Making the "right" decumulation decision is often a matter of hit and miss. This is one of the reasons why, as the FCA has often observed, many people are drawn into poor choices, such as chasing unrealistically high rates of return, unwisely transferring DB pensions or being scammed out of their money.

While more knowledge is a vital goal, and we as a charity are devoted to increasing people's financial capability, we think that experience should tell policy makers that for most ordinary pension savers the key thing is the construction of safe default pathways. The majority of people, in our experience, would prefer a safe default to being forced to make a decision for which they are not prepared and do not have sufficient information. This preference for defaults has been shown to be widespread internationally.[4]

Seeking advice or guidance, and making informed decisions as a result, are likely to remain, in our view, the activity of an aficionado minority, some of whom, sadly, will be overconfident of their ability to make the "right" decisions. For example, in the Singapore study, only 16% of older scheme members opted for non-default funds and financial literacy scores were not a predictive factor.[5]

We include ourselves in the average, as it is often only with hindsight that the "right" decision can be seen. Trying to make decisions prospectively about financial markets and financial providers is inherently difficult. Past performance, as they say, is not a guide to future results. Your capital may go down, as well as up.

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[3] The Money Charity 2021, *Personal Financial Education: Evidence of Success from Recent Studies.* Available at: https://themoneycharity.org.uk/financial-education-3-5-times-effective-previously-thought/
[4] Fong Joelle H 2020, Taking Control: Active Investment in Singapore's National Defined Contribution Scheme, *The Journal of the Economics of Ageing (17) 2020, 100249*, page 2.
[5] Fong 2020, page 1.

The industry habit of using the last five years performance to advertise their services is often not helpful, as regression to the mean normally takes place after a period of out-performance.[6] Only a small minority of funds outperform the market over a succession of five-year periods, and investors tend to find out which ones after the fact.[7]

Answers to consultation questions

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

We agree with the proposal. We agree that when a person is considering transferring their pension rights to another provider in order to access their pension savings, this is an appropriate moment for a nudge to seek Pension Wise guidance, as this is a key moment of risk for the pension scheme member.

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

We agree with the proposal to incorporate the nudge into step one, as proposed. A key consideration, in our view, is how the nudge is framed. If Pension Wise guidance feels unnecessary or bureaucratic to the scheme member, they are unlikely to take it. For this reason, it is important to spell out the potential gains from guidance and the key risks, such as:

- Scams
- Poor investments (investments with excessive risk or unrealistic target returns)
- High charges
- Adverse tax consequences

Behavioural economics has shown that people feel losses roughly twice as much as the equivalent gains,[8] so there is benefit in highlighting potential losses as well as potential gains from guidance.

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[6] Thaler, Richard H, *Misbehaving: The Making of Behavioural Economics*, page 223.
[7] Benjamin Graham, ed. Jason Zweig 2003, *The Intelligent Investor*, page 248. Zweig found that whereas 50% of US funds outperformed over a five-year period, only 15% of funds outperformed over a twenty-year period, which is not much better than a random result.
[8] Kahneman, D 2011, *Thinking, Fast and Slow*, page 283.

Pension Wise itself would gain from a more exciting online presentation. At present, its home and booking pages are rather flat, providing a means for booking an appointment, but not providing any motivating messages. An interested person cannot see *why* they should book a Pension Wise appointment from the way the page is presented.[9]

Pension Wise seems to be offering only phone appointments, but we think it should also offer virtual appointments using one of the generally used online platforms (Zoom, Meet, Teams etc). It should also describe what will happen during a Pension Wise appointment, giving an overview of what the adviser will cover and how this will benefit the person seeking guidance.

As part of the online offer, we would like to see a tool developed for giving substantive guidance without the need for an appointment, should the consumer prefer this. In developing the tool, the principles of inclusive design should be applied, with the tool being consumer-tested for user friendliness and the suitability of the guidance for the circumstances of the person receiving guidance.

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

We agree that scripts can be clumsy, but this is not an argument for abandoning them altogether. Because there is an incentive for pension providers who may be receiving new business to downplay risks, or even subliminally to encourage people not to seek guidance, we think the FCA should specify in user-friendly terms how the nature and purpose of guidance should be described. As stated in our answer to Question 2, in the context of pension transfers, it is important to highlight the potential risks to pension scheme members arising from such transfers, i.e. the risk of scams, poor investments, high charges or adverse tax consequences.

We think it would be useful to require that a **follow-up email or letter** be sent to the scheme member, reminding them of the reasons for seeking guidance. This is to allow people to make a considered choice, rather than feeling rushed on the phone.

[9] See: https://www.pensionwise.gov.uk/en?gclid=CjwKCAjwt8uGBhBAEiwAayu_9XNvmNSZzzUn-zb0lL8ZJHaowBk5akM6vDY_iwwuENzMWTchgNwcRhoCLEwQAvD_BwE&gclsrc=aw.ds

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

Yes, in many advice fields, warm transfers have been proven to be effective. We suggest that any opt-out should be confirmed not during the initial call with the provider, but after the scheme member has had time to consider the follow-up email or printed nudge. It may be that the possibility of an adverse outcome “gradually sinks in” and the scheme member then decides to take guidance after all.

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?

If a person has **recently** received Pension Wise guidance for a choice that is **substantially the same** as the one being contemplated, we agree that further guidance is not necessary. However, care must be taken in how this is framed, to make sure that providers do not wriggle out of providing the nudge in situations where it would be beneficial to the scheme member.

One of the challenges is that it is likely to be the providers with the weakest investment cases that are most likely to try to avoid nudging their customers to seek guidance. The FCA should anticipate this in how it frames the rules.

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.

We agree that the FCA should collect data that enable analysis of the patterns of guidance. It would be desirable to see whether there are correlations between (a) the way the nudge is delivered and rates of seeking guidance, and (b) the type of investment decision being made and rates of seeking guidance.

The size of the scheme members’ funds is also a significant consideration. Clearly, the larger the scheme member’s savings, the more desirable it is that they seek guidance, or even paid-for financial advice, before making an irrevocable decision.

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?

Based on our interaction with pension savers and other people considering decisions about money, we think that a period for reflection is desirable. Pension phone calls involve a lot of information delivered quickly, with many issues to think about at once, which is difficult for people to do in a considered way. They may feel rushed or be so focused on their goal that they do not stop to consider the risks carefully enough.

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?

We have proposed that a follow-up email or letter be sent to scheme members reiterating the nudge guidance warnings in a clear, user-friendly way. An appropriate cooling-off period would, we think, be a few days, to allow people to read the follow-up material and make a considered decision. If someone still decides to opt out of guidance having received a clear and well-expressed warning, this probably indicates that, for better or worse, their mind is made up.

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

No comment.

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.

We agree with the consultation paper that there is a risk of nudges coming too late and confirmation bias coming into play. We suggest that provision be made for scheme members to be nudged after they qualify for the pension freedoms up until decumulation begins, probably once per year. The key thing about such nudges is not that they include a huge amount of material, but that they convey in an engaging way the benefits of taking advice as well as the risks of poor decisions. We suggest that experiments be carried out with different nudge presentations (visually and textually) to find out which presentations have the strongest motivating effect.

Support should be sought from the media to propagate these nudges and the opportunity for guidance on a regular basis. Through regular reinforcement of the message, the likelihood of people seeking guidance should gradually rise.

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

See answer to Q12.

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.

One reform to consider would be to make pension guidance, in the form of individual guidance and/or pension workshops, a compulsory adjunct to auto-enrolment. Many employers do this already and the guidance given in such circumstances is valuable to scheme members. It can tell them:

- What happens to their money when it goes into a pension fund
- What investment choices they have, e.g. between ethical and other funds
- What level of retirement income is likely to arise from any given level of savings
- What they can do to improve their retirement outcomes
- What the “pension freedoms” are
- The risks of utilising the pension freedoms
- How to mitigate these risks

If such guidance were made an automatic part of the UK’s pension system, then we would have the possibility of developing a gradually better-informed scheme membership over time. It would be possible to develop a culture of improved saving and avoidance of poor investments, with mutual reinforcement among employers, trade unions, official sources of advice, organisations such as The Money Charity engaged in financial education and scheme members themselves.

Such an approach would complement the development of safe default pathways, as set out in our general remarks at the beginning of this response.

The Money Charity is the UK's Financial Capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves Financial Wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote Financial Capability and Financial Wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

Tel: 0207 062 8933

hello@themoneycharity.org.uk

https://themoneycharity.org.uk/