BlackRock

July 2022

Abigail Coskun
Department for Work and Pensions,
Caxton House,
Tothill Street,
London,
SW1H 9NA

Submitted via email to: caxtonhouse.retirementdecisionscallforevidence@dwp.gov.uk

RE: Helping savers understand their pension choices

Dear Abigail,

BlackRock[1] is pleased to have the opportunity to respond to the Department for Work and Pensions' (the "**DWP**") consultation on helping savers understand their pension choices.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets, while preserving consumer choice and assessing benefits versus costs.

We appreciate the call for evidence was primarily addressed to pension scheme trustees and their members and beneficiaries. However, as an asset manager of pension schemes comprising over 11 million members in the UK, dedicated to promoting the financial wellbeing of end savers, BlackRock welcomes the DWP's information-gathering exercise and would be pleased to contribute to the thinking of the DWP on any issues that may assist in the resulting outcome.

***

Overarching comments

When people retire, they have a general sense of how long their assets will need to last, though the reality is that the endpoint is unknown. Other unknown elements include: changes in spending patterns as people age; inflation; and declining health, amongst a host of other complex considerations.

That is why support around decumulation is so important – the decisions people make on how much to spend and when, are going to impact their financial wellbeing for the rest of their lives.

In its 2020 paper on DC decumulation, the Pensions and Lifetime Savings Association (PLSA) noted that people are not seeking to balance their short- and long-term needs in their decumulation decisions. Instead, people primarily favour immediate access to cash over long-term security. Research by The Peoples Pension found that participants perceived drawdown simply as a by-product of accessing tax free cash, with people giving little thought to their remaining pension savings.

Therefore, we are supportive of the DWP providing a framework in this area. For it to succeed, it is crucial that there is flexibility within the system that allows schemes to tailor solutions to the needs of their members. In line with this, we would be supportive of moving

[1] BlackRock is a leading provider of investment, advisory and risk management solutions, and has been active in the UK for over 20 years. Our purpose is to help more and more people experience financial well-being.

away from a single point in time decision process, to a more holistic support throughout people's retirement journeys.

The FCA has made important progress in this area, including through wake-up packs and investment pathways. We believe these to be positive moves in terms of avoiding the very worst outcomes. However, more support and guidance are needed for savers over the course of their retirement, which could last decades.

Retirement should be seen as continuum, and frameworks should reflect this. Moreover, multiple milestones along the retirement journey would minimise many of the risks associated with decumulation, including mis-selling and liquidation to cash.

Support for Savers

For members invested in DC schemes through their workplace, having the responsibility for decision-making on them, rather than the employer, is a source of uncertainty.

Recent analysis from Scottish Widows showed that 57% of people do not feel adequately prepared for retirement and are worried about running out of money, especially in the current context of the cost of living crisis. This data is very similar to BlackRock's, as highlighted in our DC Pulse survey.[2]

While the Government's announcement around delivering a 'Stronger Nudge' to pensions guidance is a welcome step, there is a need to engage savers throughout their retirement journey, including post-retirement.

In the lead up to retirement, employers should look to support their workforce in this area. BlackRock is an advocate of financial health checks and Midlife MOTs, and would welcome an obligation on large employers to offer these to their workforce, with smaller employers supported through a Government resourced initiative.

Moreover, we see a need for further support in post-retirement. While Midlife MOTs are increasingly common, we note that there has been less focus on those navigating their way through retirement. To help tackle this, we should consider whether some form of mid-retirement MOT, which allows people to take stock and think about their options moving forward, would be appropriate.

Advice gap

More generally, scheme members of all ages need increased access to advice and guidance to engage and be equipped to make good decisions.

While financial advice is likely to remain out of reach for a large segment of the population, pensions guidance is clearly a crucial part of this puzzle. Research from the Investment and Savings Association (TISA) shows that millions of people in the UK would benefit from a much wider range of support services to make informed choices about their savings and investments. And yet, in 2022 only one in five individuals (22%) had used the government's pensions guidance services, such as Pension Wise, and four in ten (40%) are taking no form of guidance or advice at all as they reach decumulation.[3]

We believe the regulatory framework should facilitate access to advice and guidance for those who need it and have advocated for a financial wellbeing objective for the FCA to enable this and other reforms.[4]

[2] See BlackRock 2021 DC Pulse, 56% of DC pension savers feel unprepared for retirement.
[3] See: https://www.actuaries.org.uk/system/files/field/document/Freedom%20and%20Choice.pdf
[4] For further information see: https://www.blackrock.com/corporate/literature/publication/hmt-financial-services-future-regulatory-framework-review-phase-ii-consultation-021921.pdf

BlackRock

Currently, the financial services industry is restricted from utilising the personal circumstances of a consumer when issuing financial guidance, whether that be an alert, prompt, nudge or the provision of information deemed most useful. Additionally, the regulator's current set of objectives do not task them to proactively redress this, which means consumers are missing out on potentially beneficial engagement.

While automatic enrolment has not been in place long enough for many to accrue anything other than a small pot to supplement other retirement income, further guidance is clearly going to be needed in the coming years, as more people retire with DC savings on which they will solely rely for their retirement income. This would help avoid some of the very worst outcomes, such as full encashment of larger pots or unsustainable drawdown rates.

Thus, BlackRock is supportive of a new, well-regulated market for personalised guidance, which builds on the UK's strengths in data analytics and technology, while allowing schemes to use nudges and steers to help consumers better understand their personal retirement journey. Such a regime could be put in place relatively quickly and begin delivering benefits for savers in the short-term, without the need to wait for a more fundamental review of MiFID and other regulations.

Member engagement

From approaching age 55, members will receive a 'wake-up pack' which clearly shows their fund value and what is accessible to them then. For many, this will act as a prompt to withdraw money – typically a tax-free lump sum of cash. So, it is important that communications to savers in their early 50s clearly states that access does not have to start from age 55. It should also outline some of the generic tax advantages that keeping their money in a pension could have.

It is worth noting that approaching retirement communications are heavily regulated in terms of content, which often leads to them being very lengthy and robust. Consequently, they may not be fully understood. The FCA has introduced the single page summary, but the content is still framed in a way which is unlikely to promote engagement. While consumer protection cannot be undervalued, we believe there is a need to consider whether an overhaul of the whole communication process is required to make it more engaging and pertinent. Our view is that the purpose of the regulation should be to support consumers' financial wellbeing, rather than just protect them.

Meanwhile, in the US, BlackRock has sought to tackle issues around decumulation engagement as part of our LifePath Paycheck retirement solution, which has an inbuilt engagement strategy *[see box on page 4]*.

We would be happy to discuss the participant engagement strategy with the DWP and share some examples of our engagement materials. We would also be happy to have a more in-depth discussion regarding UK market receptivity to LifePath Paycheck, including reactions from consumers, as well as the plan sponsor, investment consultant, and record keeping communities.

Case study: LifePath Paycheck

Similar to a traditional target date fund, **LifePath Paycheck** changes as participants age. Alongside this, it allocates a portion of members' investment to insurance products that are designed to give the option to purchase annuities (if certain criteria are met) from insurers selected by BlackRock. These annuities provide members with a lifetime income stream.

A key component of LifePath Paycheck is the participant engagement strategy, which was built alongside the investment solution and is focused on educating participants about lifetime income throughout their working lives.

Based on behavioural research, we seek to orient participants around potential "lifetime income" rather than the lump sum accumulated at retirement, while explaining the benefits of LifePath Paycheck, ultimately aiming to inform, engage, and encourage action. We use clear and simple language throughout and have tried to remove some of the complexity found in the industry when discussing annuities and decumulation.

BlackRock does not engage directly with plan participants, and any communications are delivered by the plan or through its recordkeeper. The sample communications program BlackRock has designed encompasses three pillars: 1) guides, videos, and events, 2) the MyLifePath digital experience, a companion website integrated with the recordkeeper that shows personalised income projections and curated educational content, and 3) a participant support centre, to supplement plan and recordkeeper efforts and answer annuity-specific questions.

We recently carried out several interviews with at-retirement consumers around the participant experience. Feedback was very positive and we found that a majority of the group were keen to learn more about decumulation once being provided a brief education about their options in simple language.

Market view

Seven years on from the pension freedoms reforms, there is a need for further focus on retirement income solutions for the DC market. As Broadridge highlighted in its 2021 UK DC & Retirement Income Navigator, innovation in this area has been slow for several reasons:

- **Weak demand**: Many have DB pensions income and are not reliant on DC to generate an income.
- **Expensive guarantees:** Historically low interest rates have made the delivery of guarantees more costly and difficult to integrate into broader solutions.[5]

However, the demand for innovative products is growing and the market is adjusting to meet this opportunity. This has been evidenced by the emergence of new offerings in the retirement market and growing research on optimal retirement income solutions.

In its 2022 paper on post-retirement products, the Institute and Faculty of Actuaries discussed a number of products such as annuities, equity release mortgages, drawdown, tontines, and their possible combinations. The paper also set out findings on how well

[5] See Broadridge, *UK Defined Contribution and Retirement Income 2021 Navigator*, p. 45

products met customer needs and concluded that, for most people, a combination of products rather than a single product may better satisfy the changing needs of individuals in retirement.

BlackRock is supportive of a flexible approach to decumulation pathways that allow for different products, which generate different types of income, at different times in someone's lifetime, designed around their personal needs. As mentioned above, we believe retirement should be seen as a continuum and that frameworks should reflect this, moving away from a model of decumulation as a single point in time decision.

As the Call for Evidence rightly acknowledges, the FCA has made important progress in this area, including through wake-up packs and investment pathways, and we believe these to be positive moves in terms of avoiding the very worst outcomes. However, investment pathways were designed to address a more limited set of risks within drawdown; they do not help with other retirement products, and do not seek to help individuals establish a sustainable income that will not run out over the course of a decades-long retirement.

Availability of retirement income solutions

In our view, a saver's retirement support and options should not be dependent on which scheme they save into. Providers are guided by what their customers want and will adapt to meet that demand, which may include facilitating access to solutions elsewhere for the benefit of their members.

As Value for Money becomes embedded in the governance framework, we would expect decumulation options to form part of the holistic assessment over time. This would seem a more appropriate way to measure any consumer detriment caused through restricted retirement options within certain schemes, rather than mandating that all schemes provide all options.

In line with this, we are supportive of Nest being able to offer the full range of retirement income solutions. As the UK's largest Master Trust, with over 11 million members, we believe that a continuation of regulatory constraints on Nest's ability to offer a broader spectrum of retirement income solutions cannot be considered a good customer outcome. Hence, we believe Nest should be able to offer a fuller range of decumulation products for its members.

Still, we are aware that some sections of industry may need assurance on aspects of Nest's expansion into decumulation and we believe the viewpoints of various stakeholders, both savers and providers, should be considered when making the decision.

Ultimately, to produce the best outcomes for pension savers, we need a competitive landscape which encourages innovation in the retirement income space. In this respect, we see an important role for the asset manager to help enable these solutions through portfolio construction and to use the advantages of scale to drive Value for Money and enable the best returns.

International experience

While many of the issues identified in this Call for Evidence are particular to the UK, it is worth noting that difficulties around retirement income solutions persist in markets around the world. Notably, Australia has recently brought forward legislation to help drive better decumulation outcomes *[see box on page 6]*.

While this was designed to alleviate the issue that most Australian retirees do not draw down on their superannuation savings during retirement, there are aspects of the regulatory solution which could be considered in a UK context.

Case study: Australian Retirement Income Covenant

In February 2022, the Australian parliament amended the *Superannuation Industry (Supervision) Act 1993* (SIS Act) to insert a new covenant that requires trustees of registrable superannuation entities to develop a retirement income strategy for beneficiaries who are retired or who are approaching retirement.

The new law responds to the recommendations and observations of two systemic reviews – the Financial System Inquiry in 2014 and the Retirement Income Review in 2020.

The earlier inquiry recommended a more prescriptive intervention. That was, to require superannuation trustees to pre-select a comprehensive income product for members' retirement. Although the Liberal Government committed to implement this recommendation in the 2018/2019 Federal Budget and consulted on a new regime to give it effect, the recommendation was never legislated.

In November 2020, the final report of the Retirement Income Review panel was handed down. The panel was not permitted to make recommendations but did deliver a series of observations on how Australia's superannuation system could be improved.

Like other covenants in the SIS Act which require trustees to have a strategy in respect of investment and insurance, and in line with the less prescriptive observations of the Retirement Income Review, the Retirement Income Covenant requires trustees to formulate, review regularly and give effect to a retirement income strategy for their members in and approaching retirement.

The covenant therefore requires a strategy document, rather than the offer of a specified product, that identifies and recognizes the retirement income needs of the members of the fund and presents a plan to service those needs into the future. The new law also requires trustees to publish a summary of their strategy on their websites.

Although the new law does not mandate that trustees offer a specific, or indeed any, retirement income product, it is anticipated that the strategy requirement will result in most trustees evaluating the products and assistance they offer to their members and investigating whether their product offerings can be improved to better meet the needs of their members.

The overarching purpose of the strategy is to assist retired members to achieve and balance the following three objectives:

- Maximising their expected retirement income;
- Managing expected risks to the sustainability and stability of their expected retirement income, and
- Having flexible access to expected funds during retirement.

The new law came into operation on 1 July this year and trustees have now published their first Retirement Income Strategy summaries.

It will be interesting to observe how the new Australian regime develops; whether the market for retirement income products expands to the desired extent; how effective any new products are in delivering optimal outcomes for members in the retirement phase; and what role the regulators will play in fostering a reinvigorated focus on the decumulation phase of the system.

Accordingly, we would suggest that consideration is given as to how policy develops in Australia, and what lessons can be learnt from this that may be relevant in the UK context.

Conclusion

We are supportive of the DWP providing a framework for decumulation decisions in the trust-based market. However, it is crucial that there is flexibility within the system that allows schemes to tailor solutions to the needs of their members.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the DWP on any issues that may assist in the final outcome. We welcome further discussion on any of the points that we have raised.

Yours faithfully,

Jennifer Ryan
Managing Director
Head of BlackRock's UK
Institutional Client Business
jennifer.ryan@blackrock.com

Muirinn O'Neill
Vice President
Global Public Policy Group
muirinn.oneill@blackrock.com