PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

RETIREMENT CHOICES:
THE EVOLUTION OF PRODUCTS AND SUPPORT

June 2022

FOREWARD

Laura Myers - Chair of the DC Committee, PLSA

In one fell swoop in 2015 the pension freedoms thrust individuals to the fore in terms of the big decisions they need to make to sustainably fund their retirements. Previously, people would retire with defined benefit pensions, or would pretty much be obliged to buy an annuity with their defined contribution pot, so they didn't have to worry about outliving their savings.

Many welcome the new flexibility, but with freedom comes more responsibility and therefore risk. The Financial Conduct Authority retirement outcomes review highlighted in 2018 that between half and three quarters of people in drawdown only end up there because they want to access their tax-free lump sum. Clearly people like and understand this part of the policy – no mean feat in the pensions world – but engagement with the rest – and majority - of their pot, is dangerously low.

In my day job as a pensions consultant we help corporates and pension trustees run their schemes which range from single employer trust schemes to commercial and non-commercial Master Trusts. There are obvious differences between these, but something they all have in common is members approaching retirement who need help. The big question that this report tackles is how to help schemes to help their members make good decisions.

With this view of the market and the expertise and experience we've developed, we are in no doubt that retirees would benefit from an enhanced level of guidance, as proposed by the PLSA's Guided Retirement Income Choices (GRIC) framework – and it makes complete sense to leverage schemes' knowledge for individuals' benefit

So how do we get there? Many schemes will not have the resources to develop what can be complex and costly solutions, and I'm seeing increasing numbers of schemes seeking to partner with someone who can provide a full range of decumulation solutions. So, the demand is growing – even before we discuss any potential obligation on trustees. However, when it comes to wider support (beyond just providing flexibilities) there is still a big gap. The dependency is with the supply side to facilitate access to cost effective guidance solutions for all those schemes' members.

As this report sets out, we are seeing more insurers and Master Trusts coming to market offering solutions and we must continue this progress. Despite this, many providers continue to be focused on their accumulation propositions. Again, this is gradually changing, but will it change quickly enough, to help the tidal wave of retirees we are going to see in the coming decades?

The crux of the matter is as simple as a cost-benefit evaluation for the Master Trusts and insurers. As we know auto-enrolment created a lot of small pension pots which commercially represent either very low margin, or wholly unprofitable business. This equation will need to right itself if we are to achieve a true mass-market solution which provides retirees the support they need. I don't believe this will happen without contributions from all parties in the pensions world. In 2012 the industry, policymakers, regulators and consumer organisations all came together to lay the foundations for a workable accumulation regime; now is the time to bring the same key players together to put a decumulation regime in place that will provide retirees with the level of support they need.

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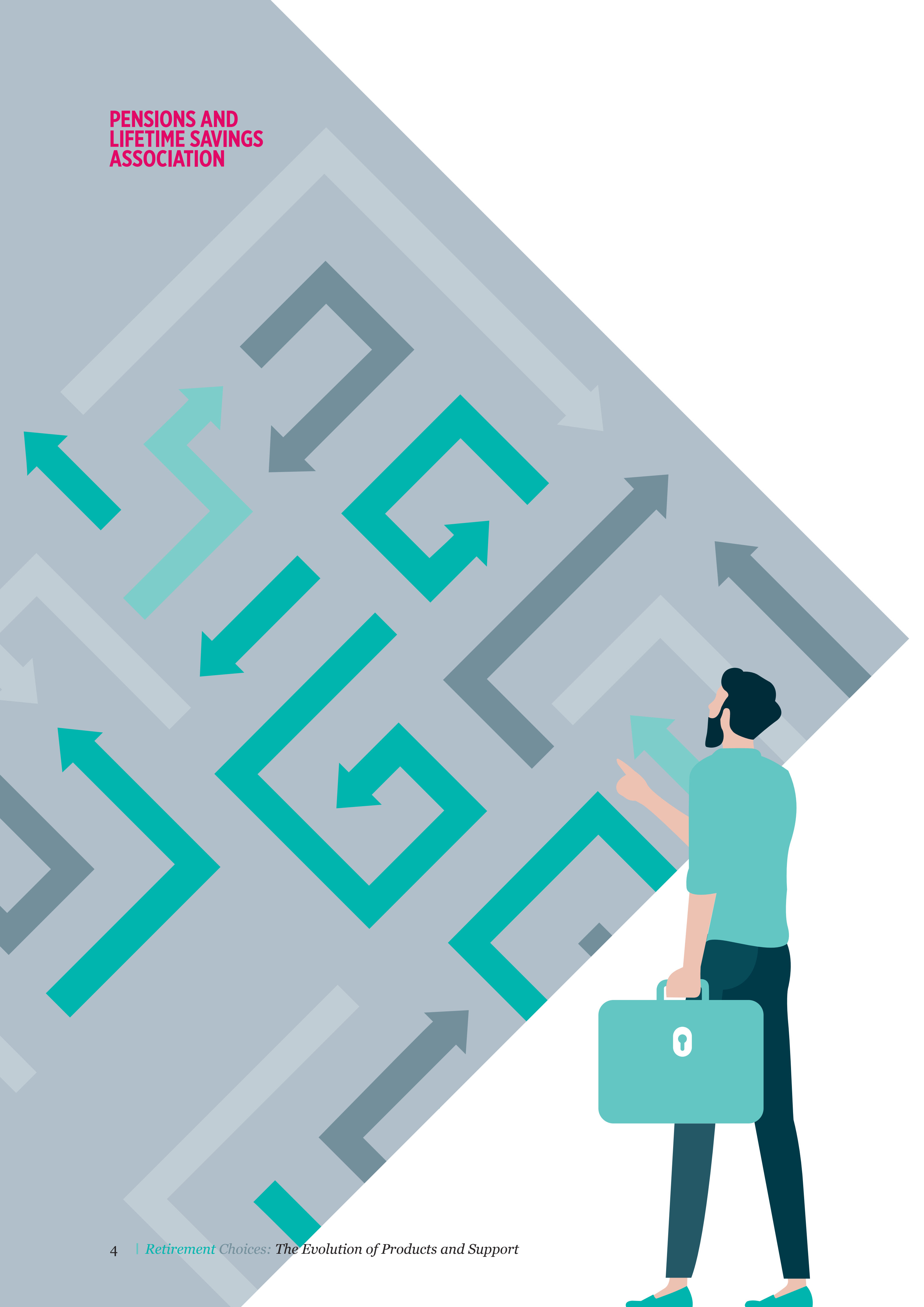

EXECUTIVE SUMMARY

- Since the pension freedoms in 2015, individuals have been faced with a series of very important and also very complex decisions to take at retirement with regard to how they spend their life savings. With most people no longer buying a guaranteed income, the risks of running out of money – either due to an unsustainable withdrawal rate, or through cash investments losing money in real terms – have grown, so people need help to understand the choices they need to make.
- The PLSA's view is that a framework – our **Guided Retirement Income Choices** – could solve this problem. Schemes and providers possess the knowledge that retirees need, so we'd like to see this harnessed with a requirement on them to guide their members through their options – and also to help them access the full range of retirement solutions – including both flexible withdrawals and a guaranteed income – to meet their changing needs.
- We first proposed this framework three years ago, so we think now is the time to assess the extent to which the market is evolving and solutions like this are emerging. We spoke to a wide range of our members, including insurers, Master Trusts, and single employer trust-based schemes to find out what they are offering members for retirement, what their plans are, and how they see decumulation developing in the coming years.
- We are happy to say that an increasing number of providers are offering and developing these comprehensive solutions which afford retirees a much greater level of support. There is wide consensus that no single product can provide for all of someone's needs over what could be a thirty year retirement, so increasing focus is being placed on how to help people tackle this hurdle. And as providers embed such solutions for their own members, they will naturally begin to open them out to the wider market, where we are seeing increasing demand from the part of single-employer trusts.
- DC decumulation is an area of focus for government this year, and the DWP is currently consulting on it. We will continue to engage with policymakers and provide as much support as we can as we strive to facilitate a safer and more valuable retirement offering for retirees, irrespective of what kind of pension they have.

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INTRODUCTION

In 2018 and 2019 the PLSA conducted extensive industry research into the post-pension freedoms support on offer to savers, both on the approach to, and at the point of, retirement. The freedoms represented a major change to – and increase in – the options available to retirees, but the process for them to select the right products is not straightforward, while the financial consequences of taking bad decisions can be severe.

Our work established that whilst some support was on offer to retirees from schemes and providers, it was limited in terms of the level of guidance necessary for them to fully understand their options. There was also – particularly for members of trust-based schemes – little innovation in place to enable retirees to choose a product mix to cater for their changing needs over the course of retirement. While individual products existed, with drawdown providing flexibility of income, and annuities a guaranteed income, few schemes were equipped to help their members access the right combination of these.

This is why we proposed the Guided Retirement Income Choices framework, which would place the provision of these solutions - and the necessary guidance around them - on a statutory footing.

Moving forward to 2022, we are encouraged that increasing numbers of Master Trusts and insurers are either already offering or currently developing retirement solutions which we feel more adequately cater for retirees' needs. This is significant progress, though there is still work to be done. However, most single employer trusts will not provide these solutions, and so we would like to reach the point where their members can safely and securely be signposted to schemes or providers which would be able to support them.

As the years go by, more and more schemes are seeking to provide such signposting. This is also becoming increasingly important as more people retire with a majority of pension wealth in DC savings. At present people are still retiring with significant DB entitlements but this will not continue indefinitely. Through auto-enrolment government and industry have together built firm foundations for people to accumulate pension savings throughout their working life. This can be seen in the rapid growth of DC savings over the decade, which Broadridge[1] estimates will lead to DC Master Trust assets growing from around £87bn currently to £461bn in 2029 highlighting both the scale and speed of the DB-DC transition, while TPR data indicates that DC assets will likely overtake DB liabilities in the next 15 years[2]. Therefore now is the time for policymakers to take proactive steps to prepare for future years when people will retire with a pot or a mixture of pensions rather than the default security of income of DB. As such we encourage government and regulators to take this opportunity to revisit any perceived barriers to the retirees of the future getting the help they will need to ensure the savings they've built up through auto-enrolment are best utilised.

1 https://datacrunchaugust10.pensions-expert.com/
2 Corporate Strategy Pensions Future | The Pensions Regulator

BACKGROUND

Until 2015, accessing your pension meant – for most people – converting a pot of money into a guaranteed income for life. Since then, however, savers, on reaching 55, have had far more freedom over what to do with their pension. With this increased flexibility and choice though, came increased responsibility as they were suddenly exposed to an array of risks surrounding what, for many, will be the biggest financial decision of a lifetime.

With most people having accumulated a pension through inertia, i.e. a lack of engagement, few are therefore equipped to make such important and complex decisions, balancing longevity, inflation and investment risks to ensure they enjoy a comfortable retirement without running out of money. Without expert support, many people unsurprisingly run the risk of making bad decisions for their finances. For instance, FCA research[3] shows that in the six months to March 2020 a third of people who accessed their pot withdrew money simply to put it into cash, inevitably losing out on growth had they left it invested or taken drawdown, while 49% of drawdown withdrawals were made at a rate of over 8% - double the sustainable level defined in Fidelity International's Retirement Savings Guidelines white paper[4].

Some support is already on hand, through professional advice and guidance services, and PLSA is supportive of both of these, especially those available to everyone such as PensionWise. These require an active decision from the retiree to seek help though, and they also have capacity and cost constraints, so they inevitably only assist a small proportion of people. Indeed 2022 research from the Institute & Faculty of Actuaries and YouGov[5] shows that only 22% of retirement age people have used this free service, while the FCA data indicates that 64% of pensions accessed for the first time in 2019-20 were done so without the help of an adviser, so there is a clear need for consumers to get more assistance at this crucial life stage from their product providers.

3 https://www.fca.org.uk/data/retirement-income-market-data-2020-21
4 https://eumultisitev4prod-live-eb461540d2184169bb77db2b062d9318-f268f99.s3-eu-west-1.amazonaws.com/filer_public/74/62/746250b9-56e8-4cd1-bd0c-e195ce6bf460/retirement-savings-guidelines-sept-2020.pdf
5 Freedom and Choice.pdf (actuaries.org.uk)

PREVIOUS PLSA MARKET FINDINGS

We last evaluated the decumulation market in 2019 when we published our **Evolution of Drawdown** report, ahead of our wide-ranging call for evidence on the evolution of the Pension Freedoms.

At the time we found that the freedoms were engendering a change in approach from many schemes, with an increase in member support provided, particularly through employer websites as members neared retirement. Information provided typically comprised details on the member's pension, signposting to PensionWise and/or regulated advice services, point-in-time specific engagement such wake-up packs, while some provided specific guidance on their scheme and signposted to a Master Trust or personal pension to provide drawdown.

In terms of more specific guidance, the picture was mixed; while most schemes agreed trustees had an important role to play in helping members make good decisions, only a handful of schemes went further than providing basic factual information and signposting to an adviser, while many withdrew their annuity broking services due to perceived poor value or concerns of trustee liability.

At the time of our research, a small number of schemes were beginning to signpost to external drawdown providers/Master Trusts, and many more were interested in such an arrangement for the future. However there were also widespread concerns about members making such a transfer without advice, and schemes needing to provide sufficient warnings that members must make the transfer decision themselves, i.e. they would not be advised or defaulted in any particular direction.

In terms of products on offer, we found general consensus that more support could be available for people in the latter stages of retirement. As such a few Master Trusts were in the process of building multi-pot/blended solutions to cater for a range of retiree needs, though none of these were yet available when our Evolution of Drawdown report was published. There were suggestions that due to the longevity uncertainty of drawdown, more annuity and deferred annuity options could be on offer to members to secure a guaranteed income at the point at which cognitive impairment may become a factor, and that a separate pot could be allocated at retirement and ring-fenced with this purpose for the future. Our conclusion at the time was that the key barrier to more such solutions developing was a lack of demand from the part of schemes.

PLSA'S PROPOSALS

- The PLSA's solution for the lack of retiree support described above is the **Guided Retirement Income Choices (GRIC)**, a framework to support retirees with these complex decisions, irrespective of what kind of pension or provider they have. The key elements of the framework are:
- To guide and inform savers – a saver engagement journey, informed by behavioural economics, and deploying a 'path of least resistance' that enables schemes to signpost savers to a retirement solution either inside or outside the scheme.
- To deliver well-designed solutions – a set of minimum product standards that require schemes, who are better able than savers, to trade off the numerous and complex risks faced at retirement. Typically these solutions would include options that cater for members' different needs, including cash, flexible access to their retirement savings, and a sustainable income. In practice this may mean a product mix including flexible drawdown and an annuity, or perhaps access to a collective DC decumulation arrangement in future, once schemes offering this model emerge.
- To support schemes to deliver the framework – key governance minimum standards to underpin the design and delivery of the above elements.

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2022 MARKET - STATE OF PLAY

The GRIC framework was developed following considerable PLSA member and wider industry feedback on the need to support savers in the move from inertia-based saving to the point of needing to engage with and understand their at-retirement decisions. Much of the feedback received was that the framework should go further than the FCA's default investment pathways, as trustees need to be allowed the discretion to make decisions in the best interests of their members, and that pathways do not adequately address retirees' changing needs throughout retirement. The three key elements of the GRIC (member engagement, blended products, and governance) are therefore intended to address this need.

With GRIC having been developed following two rounds of industry consultation in 2017/18, and further review and advocacy during 2020 and 2021, in 2022 we committed to canvassing our membership to establish to what extent the market has innovated since we first conceived of the GRIC framework and to find out what decumulation solutions are emerging. Our research included discussions with five large Master Trusts, two large insurers, a number of single employer trust schemes, as well as consultancy and legal services firms, and ran throughout the first quarter of 2022. The topics covered in our member discussions centred on existing and planned innovations for decumulation solutions, including product mixes, engagement approaches and planned/expected target market, i.e. existing scheme members, external transfers etc. Discussions also covered the demand and supply side dynamics necessary for a decumulation product market to develop, and other potential barriers to trustees and those overseeing schemes implementing such solutions, including existing regulations.

Our 2019 Evolution of Drawdown report identified the following five phases retirees pass through during the decumulation journey:

- **Phase 1. The glide path:** investment strategies designed to help the member align assets with their expected choices at retirement. Most of the schemes we spoke to in 2019 had recently changed their default investments for those approaching retirement to a multi-asset strategy targeting drawdown.
- **Phase 2. Getting ready:** the pre-retirement alerts and information; these had also seen a change in 2019, with more schemes and employers providing engagement and information prompts to members from age 50 about the decisions they would need to make about their retirement finances.
- **Phase 3. Decision time:** the choices available to the member at retirement and the guidance or regulated advice given at retirement to support making a decision. Our previous work indicated increasing numbers of single employer schemes integrating access to financial advice for their members, or signposting to the guidance services and tools offered by external drawdown providers.
- **Phase 4. Early years 'retirement':** while some members cash out altogether, other members remain invested in the scheme beyond their selected retirement age and some schemes, typically the Master Trusts, were in 2019 beginning to offer the first iterations of in-scheme drawdown that facilitates the payment of a regular income. In 2019 none of the single employer schemes interviewed offered drawdown, though a few were considering signposting members to an external provider (or signposting to advice services).
- **Phase 5. Later years 'retirement':** A fifth phase designed to manage longevity and vulnerability risks among ageing drawdown customers is in planning phase among a small number of Master Trusts that are offering or plan to offer in-scheme drawdown.

The focus of our 2022 survey was on phases two to five, namely the engagement with members on the approach to, and at, retirement, and the evolution of the products on offer to them.

Phases two & three: providers and Master Trusts are exploring more extensive member engagement and guidance for decumulation solutions

The providers and Master Trusts surveyed tend to provide a wide range of engagement and educational material to members both on the approach to retirement and at the point of retirement. This typically consists of guidance on potential options, seminars, and some schemes offer members a 1:1 planning meeting. These services are all typically delivered online, alongside a range of interactive tools, some of which enable retirement modelling using the PLSA's **Retirement Living Standards**. Other approaches include numerous small engagement opportunities with customers on the run-up to retirement, including nominations of beneficiaries or requests for customers to update other key information. Many also offer assistance for members wishing to take financial advice, with some single employer schemes partnering with advice firms to offer preferential rates; however the focus of this report is on the support required by savers who either do not want or cannot afford to take advice.

Member experience may vary depending on whether a member saved within the Master Trust/ provider or if they transfer there for retirement; evidently in the latter scenario they would miss much of the pre-retirement communications which under the GRIC proposals, would be provided by their ceding scheme. However, once transferred, member experience tends to centre around an online journey, gathering information on the customer, their available funds and their retirement spending preferences. The online journeys are intuitive and straightforward and the use of RLS is helpful in putting expenditure and budgets in relatable terms. Crucially though, a customer must still complete the journey and make certain decisions at the end of it – failing this, they are not defaulted into products.

CASE STUDY

Single employer trust: Kingfisher Pension Scheme

Scheme type: DC workplace scheme provided via the Legal & General platform on a single own trust basis. Employer contributes 5%, increasing to 14% if the employee contributes 8%.

Average pot size for members over 55: circa £10,000

Scheme members: c. 65,000

Member behaviour: due to the high number of relatively small pots, the vast majority of members take their retirement account as cash, the scheme expects this trend to continue for some years, however it also makes options available for those members with larger pots who may wish to access some of their pot as cash, but who may also wish to consider drawdown, the purchase of an annuity or a combination of options.

Retirement options: while most members cash out, they are free to transfer to another provider, or the individual member, on a voluntary basis, can transfer into the At Retirement section of L&G Mastertrust to access their suite of retirement products, which includes pathway options including flexi-access drawdown as well as an annuity. Members retiring who are not ready to access their pension have the option to remain in the scheme within a range of lifestyle strategies which vary investments according to whether the member is targeting cash, drawdown or an annuity.

Member support available: the scheme runs engagement events for members to enable them to learn more about their pension planning and options, and offers webinars to employees of all ages addressing topics including the scheme, the gender pensions gap and the State Pension. The scheme partners with L&G to provide wake-up packs and support to members ahead of retirement with an online modelling tool based on the PLSA's Retirement Living Standards, which the Scheme was an early adopter of. The scheme also provides a facility with LV= who offer members a free half hour advice consultation on retirement options. Members can continue into full advice at a cost if they wish to do so.

Phases four & five: Master Trusts and providers are beginning to offer blended solutions

In terms of blended products, the solutions we examined were all based on the premise that many retirees would – in general – prefer more flexibility earlier on in retirement at which stage lifestyles are generally still fairly active, with more security of income later on, as physical and cognitive impairments can take effect.

The use of an annuity later in retirement is, in particular, an area receiving increasing attention. As discussed by the PPI[6], while annuity purchases have declined for all ages below 75 in the last five years, for people aged 75 and over, they have increased. This also bears out modelling from LCP on the crossover point at which retirees are likely to be happier with an annuity than in drawdown. The modelling shows that – depending on investments, rate of drawdown, and differing intentions for retirement wealth, most people will reach a point in their 70s where an annuity, and the financial security it affords, will become the most appealing option[7].

This remains consistent with our understanding of the evidence and was one of the key factors which led us to develop and propose GRIC's blended solutions. As such most of these solutions offer some combination of cash, drawdown in the 'early years', and a (deferred) annuity for later on; these products are typically 'blended' through the online portal to provide an understandable and customisable solution to savers.

FIGURE 1: SUMMARY OF MODELS ON THE MARKET

Model 1	Pre retirement comms	At retirement guidance on retirement product options	Tax free cash Drawdown	Annuity
Model 2	Pre retirement comms	At retirement guidance on retirement product options	Tax free cash Drawdown Deferred annuity	
Model 3	Pre retirement comms	Pot is split by default into sections targeted for different retirement options	Tax free cash Drawdown	Annuity
Model 4 - single employer trust	Pre retirement comms	Options: remain in-scheme, cash out transfer **OR** signpost to retirement provider	Transfer to provider of retirement solutions	Guidance on product options, choice/mix of cast, drawdown, annuity etc.

6 https://www.pensionspolicyinstitute.org.uk/media/4079/20220526-ppi-bn130-set-for-life-a-guaranteed-income.pdf
7 https://insight.lcp.uk.com/acton/attachment/20628/f-7623ab84-bb1a-4d53-8036-7472a22adeed/1/-/-/-/-/is%20there%20a%20right%20time%20to%20buy%20an%20annuity%3F.pdf

There are currently a handful of Master Trusts offering a DC decumulation journey with this range of products. Primarily these are on offer to the Master Trusts' own members, though there are a growing number of external single employer trust schemes seeking to partner with them for a decumulation-only solution. Two Master Trusts are already open to such business, though volumes are still limited, while another opens its decumulation solutions to external business this year.

One other Master Trust and both insurers surveyed are also actively developing decumulation solutions resembling GRIC. One is in the process of building a blended decumulation solution which is planned to open to the wider market later this year, offering a similar range of products to suit the entire range of retiree needs. Another is focussing initially on its own customers as it builds a blended solution featuring tax free cash, drawdown and a guaranteed income to suit their needs as they progress through retirement. On approaching retirement customers would be defaulted into their online retirement journey which will guide them through their options and decisions around how to best use their pot. The final large Master Trust is developing a new decumulation product aimed at its own members with over a certain threshold pot size and aims to enter the market later this year, opening to external business at a later date.

CASE STUDY

Consultancy: Lane, Clark & Peacock

Arguably the most ambitious model discussed as part of this is one developed by LCP, still at a conceptual stage. The 'flex first, fix later' model follows the same principle as the existing Master Trust developments discussed in this paper in that elements of both flexibility and guarantees will suit most retirees, but builds on analysis to identify the crossover point at which most retirees' preferences would switch from the flexibility of drawdown, to the security of an annuity.

Under this proposition, the saver would save in a product which starts off looking like a standard drawdown account, but where the plan is to use the balance of the pot to buy an annuity at a pre-determined later age (eg age 80). This feature would be built into the product from the start, though a member could opt out at any point.

Approaching the crossover age, regular communications would provide reminders that the annuity purchase will go ahead at that point. Assuming no changes are made, this would then happen automatically, without the need for further engagement from the customer, therefore avoiding the need for complex decision-making at a time of possible cognitive decline.

In the main, feedback from these providers and schemes does indicate demand from the part of trust schemes for an all-in-one retirement product catering for short and long term needs. It is clear that most of those canvassed are concentrating their efforts initially on their own members and customers, while only a handful have the short term intention of opening their decumulation offering to the wider trust market.

While prioritising existing customers is understandable, advisers and consultancies highlight that without significant scale, and aside from the largest single employer trusts, much external single trust business will not be commercially viable due to low pot values. Indeed, one provider noted that they will not be directing existing customers with pots below £30k to a blended product; this threshold is likely to be higher still for external customers. As such, and based purely on market dynamics and pricing, member feedback has indicated that any market that would naturally occur for decumulation-only Master Trusts may be limited. One Master Trust did, however, note that a small market may develop, with certain market participants likely to take on low margin decumulation business, aided by their scale. This market could improve as a result of other related policy changes. These could include the consolidation of small pots, which may be addressed through a 'pot-follows-member' model, currently being assessed by the Small Pots Industry Co-ordination Group, and this would remove some of the smallest pensions.

DC POT SIZES

With the pension freedoms still less than a decade old, average DC pot sizes are – while steadily growing – still relatively small. Aggregate DC savings in the UK were around £430bn in 2019; the Pensions Policy Institute expects this to rise to £805bn in 2039.

For individuals, assuming contributions are maintained at their current rate and 6% investment growth per annum before charges, this represents a median pot size increase from £38,000 in 2021 to £63,000 over the following two decades.

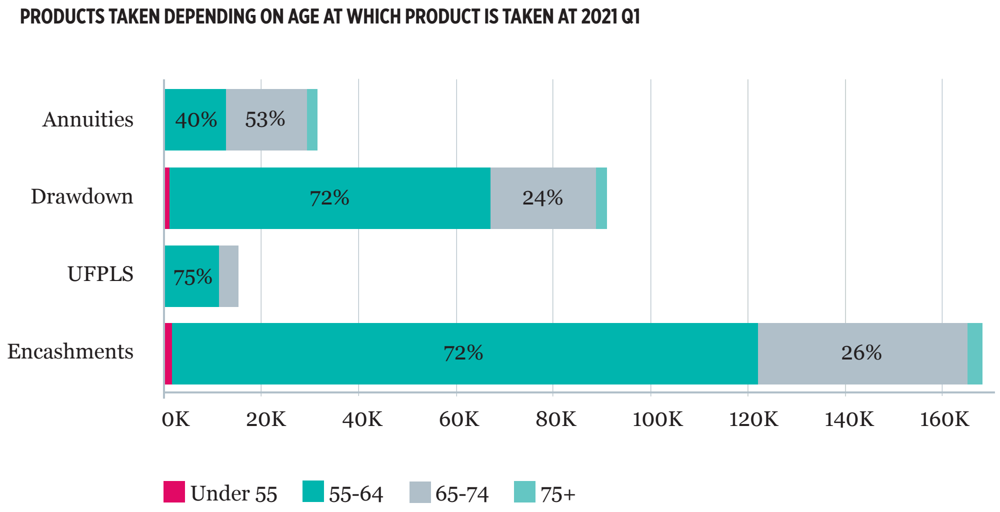
[8,9]

It is therefore worth noting that over time as pension wealth continues to shift from defined benefit to defined contribution, the overall value of DC pots should increase and therefore viability of this business for decumulation providers should improve. This is a trend we already believe to be underway, as demonstrated by Aon's 2022 DC member survey[10], which indicates that the number of DC schemes now signposting to an external drawdown solution has doubled since 2020 to two thirds.

Regarding our 'fifth phase' of retirement – the later years - provision of the guaranteed later life income did differ slightly depending on the provider; the Master Trusts offer access to an annuity from the open market via a broker, while the insurers we spoke to are in the process of developing an annuity option in-house which will be offered later this year as part of their blended retirement product, as well as sold on the open market. All of those surveyed did however caution that the eventual market for annuities may take some time to develop, and indeed of those already available no customer has yet taken this option. This is primarily down to only a relatively short period of time having passed since the pension freedoms, and that many current retirees still have significant DB entitlement, which would provide for the secure income they may desire. As this DB entitlement declines we would expect the demand for later life annuitues to gradually increase.

8 https://www.pensionspolicyinstitute.org.uk/media/3270/20190919-the-dc-future-book-2019.pdf
9 https://www.pensionspolicyinstitute.org.uk/media/3916/20210923-the-dc-future-book-2021-final.pdf
10 https://www.pensionsage.com/pa/images/aon_march2022_offering-support.pdf

FIGURE 2: AS ABOVE, WE WOULD EXPECT THE AVERAGE AGE OF ANNUITY PURCHASE TO INCREASE AS MORE SAVERS RETIRE WITHOUT DB SAVINGS AND REQUIRE A LATER LIFE STEADY INCOME. (SOURCE – FCA)



Alongside their drawdown option, one insurer is currently assessing both a deferred group annuity and an annuity bought from a panel for access at the point of purchase. While the group annuity should in theory offer preferable pricing due to its scale, it may be that customers don't want to tie their money up for 10-15 years, while the perceived poor value of annuities may mean annuity aversion at the point of retirement stifles demand. Therefore they are likely to favour prompting customers at, say, age 75 or 80, to consider an annuity, with the potential of in-house simplified advice to help with decision-making. Crucially, this solution will not offer some of the additional pots catered for by other providers. For instance, inheritance and social care costs are not the core purpose for pension saving, so the product will ensure simplicity by focussing on the essentials, with the option of these additions at specific request.

Given most people would only seek a guaranteed income in this final phase and later years, our 2019 research highlighted an expectation of some innovation in terms of deferred annuities. There does appear to have been some progress, with a few of those surveyed offering these products, however they are not universal. Due to solvency regulations, such products require the reserving of considerable capital for a protracted period (in some cases it could be 25 years between purchase and when income is first accessed), which makes them expensive relative to immediate annuities.

CASE STUDY

Insurer: Aviva

Scheme type: Workplace.

Developing a new retirement proposition for Workplace Scheme members: a retirement strategy that helps provide members with a sustainable income for their lifetime. The aim is to incorporate a multi-pot investment strategy for members approaching retirement that integrates into a blend of drawdown and annuity to provide a sustainable income throughout retirement. The new proposition would be available both Aviva's Master Trust members and contract-based book, which is served by investment pathways.

The objective is to focus on those members who traditionally have been non-advised, and therefore underserved, to support them with their changing needs through retirement. Central to this theme is the premise that most people take tax-free cash initially. An offering that helps members split the rest of their pot to provide the best elements of both flexible and guaranteed income should resonate with those grappling to make the right decision. A mixture of planning tools and guidance should assist with these options and highlight the implications of different splits of the pot. For example, modelling tools allowing members to experiment by allocating different amounts to each pot and 'play around' with whether this provides a sustainable income rate.

The concept is that people will be engaged as early as possible, throughout accumulation and as they approach retirement, and increasing contact opportunities will be used to drive engagement - such as adding beneficiaries, and changing retirement dates. Focused on members with above a minimum sized pot, to ensure viability of the multi fund strategy, initially the retirement journey will be an opt-in model, though eventually, members could be defaulted into it where appropriate.

Several large Master Trusts were canvassed which had different views and approaches to decumulation. One is currently planning a product which is based on building a sustainable income through drawdown, providing for cash, flexible withdrawals, and a steady income later in retirement. As such the default option would not include an annuity, though one would be attainable through a panel. The other large Master Trust, as a large scheme with numerous members with a low average pot size, does not currently offer either a drawdown or blended decumulation product and are some way from doing so. Fundamentally they do not yet see guidance and retirement products as their domain, as the vast majority of their members either cash out or transfer their pots to a larger pension they may have elsewhere. In terms of supporting members, this Master Trust would consider Pension Wise by Money Helper to provide a very effective service and that this should remain the first port of call for their members when deciding how to allocate their retirement savings.

FOCUS ON COLLECTIVE DC

Following legislation and the publication of the Pensions Regulator's CDC Code, in 2022 we expect the launch of the UK's first single-employer CDC scheme from Royal Mail. Initial CDC models will be limited to those providing for savers throughout accumulation before targeting a sustainable income in retirement. In terms of providing a steady income, while harnessing the growth benefits of a longer term investment horizon, increased scale and risk pooling, much of the industry consider CDC will facilitate improved retiree outcomes, removing much of the complex decision-making associated with DC. As such, we consider that CDC could fit within the GRIC framework, as well-governed schemes would theoretically provide sufficient support for members as well as products catering for their changing financial needs.

While initial models will be limited to those who have saved into a CDC scheme, a number of employers and providers are also interested in the potential of decumulation-only CDC structures, which scheme members could transfer their pot into at the point of retirement. There remain technical uncertainties of a decumulation-only model, not least around the reduced scale of a retiree-only membership, and so we expect modelling to be forthcoming over the coming years, alongside consultation from government to establish the viability of this model.

A key tenet of GRIC is the potential for a future requirement on scheme trustees to support their members with their at-retirement decisions. While loosely worded, this compulsion is intended to create a market and thereby push more Master Trusts to offer solutions that cater for the decumulation needs of the many schemes which will not seek to develop their own drawdown and other retirement products. We believe this segment of the market to comprise the majority of the single employer trust sector, one of which surveyed is already signposting to a decumulation Master Trust, and as per the Aon research referenced above, this is also the case for many other such schemes.

Any requirement would also help provide schemes and trustees with the confidence they would need against any litigation risk associated with providing a deeper level of guidance as well as signposting their members towards a specific decumulation provider.

Regarding those Master Trusts which already have a GRIC-like framework to support customers in retirement, feedback on the timing of any new requirements for support was mixed. While their offerings would largely satisfy the GRIC criteria (namely through blended products and enhanced communication), the prevailing view of the context in which the industry is currently operating remains that the overall reporting and regulatory burden schemes are facing is already too large, and any changes to requirements more generally should be avoided. This was also the case with some own-rules trust schemes, where signposting to external retirement options is already providing considerable support to members, without the need for any additional requirements to do so. For such schemes it was suggested that a voluntary accreditation system may be a good alternative to recognise good practice.

One large Master Trust was strongly in favour of new requirements. Their retirement offering under development would satisfy the GRIC criteria though the central reason for supporting it was the strong belief in the need for an extension of the moral obligation to support members in retirement. Consistent with this belief they are currently exploring the possibility of defaulting members above a certain pot size into their retirement solutions. Given they are a trustee governed scheme with a duty to act in members' best interests, this 'defaulting' may be possible in a way that it may not be for non-trust pension providers; some savers will currently remain unable to benefit from this kind of solution without changes to the legal and regulatory framework.

POTENTIAL CHALLENGES RAISED TO A GRIC-LIKE FRAMEWORK

Below we summarise a number of the challenges raised by members throughout our interviews which they felt may impede the introduction of the GRIC framework. We also outline possible mitigations and solutions to these risks.

POTENTIAL BARRIER	POTENTIAL SOLUTION
Lack of a viable commercial market developing, meaning that there are not enough master trusts/providers to take on a lot of decumulation-only business. There is a fear that given the low-cost nature of much of the workplace market, there would be insufficient supply to cater for the own trust schemes needing to signpost to a retirement solution.	This barrier may reduce over time, as DC pots grow, as the proliferation of small pots is halted and pots are consolidated, meaning a smaller number of larger pots exist. Requiring schemes to offer GRIC support above a threshold pot size (as some providers are doing) may also mean they are not asked to take on uncommercial business (and in some cases drawdown/annuity purchase is not signposted in unsuitable cases).
High cost of developing blended products due to the complexity of simultaneously providing flexibility and a guarantee through an all-in-one bundled solution with drawdown and an annuity. There is also the high cost of advice alongside the product to consider in many cases. This was a concern raised by the WPSC inquiry.	The GRIC proposal remains flexible regarding how a 'blended product' is designed. As is the case with most members referenced in this work, the solution is a combination of several different products, which are blended at the point of engagement with the member, rather than at source. In terms of advice, GRIC is intended as a solution for the majority – non-advised – segment of the market. With sufficient non-personalised guidance we hope more retirees will be able to make informed decisions on the allocation of their pots.
Firms' reticence to stray too close to financial advice with their member communications.	This is a barrier that prevents schemes from providing personalised recommendations to members. While we would welcome views from PLSA members on specific areas of the advice-guidance boundary which could be altered, we are seeing examples of intuitive engagement through online platforms giving examples of typical retirement product choices for individuals with certain circumstances. As such, recommendations can be avoided though effective use of engaging information.
Without a true default being enabled, some level of member engagement is still required for them to select blended products, so without the regulatory environment enabling this, many retirees will still be left behind.	Legislative/regulatory change would be required for members to be defaulted into a GRIC product, though this is unlikely to be possible as a member decision will be needed before drawdown/annuity purchase. A default could however get members halfway to that point, by defaulting their DC savings into a set split of pots e.g. immediate needs, flexible access and sustainable income, from which point decisions on actual retirement products could be made (e.g. annuity purchase at a future date with the sustainable income pot).

CONCLUSION

The two main trends we saw emerging in our 2019 report were the increasing access to scheme/employer provided engagement and information, and early developments of in-scheme drawdown, with a few Master Trusts considering multi-pot blended solutions for their existing members.

The situation has now evolved. In 2022, schemes, providers and employers are going further with their guidance and communications to savers, both in the years approaching retirement and at the crucial point of retirement itself. Continuing to raise the level of retiree understanding about their financial decisions is going to become increasingly important over the coming decades, as more and more people retire with solely DC entitlements, and so it is incumbent on those parties with the knowledge to guide them through these complex decisions. While we hope to see access to regulated financial advice increase, both through regulatory interventions and as digital provision of these services becomes more widespread, the majority of people will still retire without it. For this population, the wake-up packs, online seminars, and interactive portals we are seeing schemes invest in will – alongside free impartial guidance services such as PensionWise by Money Helper – have a vital role to play in improving retirement outcomes.

These developing online resources are also – in the cases of most Master Trusts – forming the basis for advancements in the retirement products offered. Most of those we spoke to are now (or will later this year be) offering a mix of retirement products, blended through an informative online dashboard. The product mix is flexible and can be tailored to an individual's circumstances, but could typically comprise a tax free lump sum, flexi-access drawdown, and an annuity to secure a sustainable income during the latter years of retirement. Most also offer additional options including ringfencing segments of the pension pot for other uses such as emergency funds or inheritance.

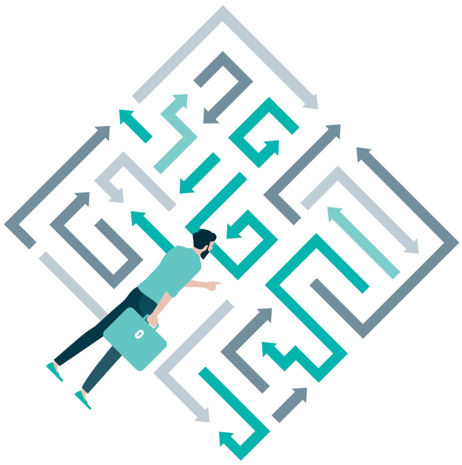
The insurers we spoke to are also – in contrast to in 2019 – developing sophisticated retirement solutions catering for the same range of changing retiree needs. A key difference is that their annuity offering will tend to comprise an in-house offering rather than the open market product integration offered by the Master Trusts. However, fundamentally, the development of both these models represents a key step forward in retirement product innovation since 2019.

One key area which, while having seen some change since 2019, we hope will continue to evolve, is access to these blended products. They are still primarily on offer to in-scheme members (or those already saving into a personal pension with the provider), with only a few Master Trusts currently open to decumulation transfers. We do understand that others plan to open to such business in due course – something which will be necessary as we hope demand from single employer trust-based schemes increases to be able to signpost members to a retirement solution.

We understand this demand is already growing, and we think this could be accelerated through the adoption of a GRIC-like framework, which would help to protect savers, schemes and providers to continue to develop in the right way. There will understandably be reticence on the part of some trustees to provide members with more support than they currently do, whether due to existing resource constraints or low risk appetite around enhanced guidance and signposting. Therefore we believe there is a continued rationale for the requirements to provide support envisaged within GRIC, to provide trustees with the protection and confidence they need to take this step.

ANNEX 1: SUMMARY OF MEMBERS EXAMINED AND DECEUMULATION MODELS CONSIDERED

SCHEME TYPE	GUIDANCE/COMMS OFFERED	BLENDED PRODUCTS OFFERED	AVAILABILITY - OWN MEMBERS OR ALSO FOR DECUMULATION TRANSFERS IN?
Master Trust	Online info, seminars, 1:1s for members, interactive tools	Flexibility and guarantees split between five pots.	Internal and external scheme members
Master Trust	Online interactive tool with integrated guidance	Blended for drawdown and an open market annuity (usually deferred).	Internal only but lots of external interest
Insurer	Comms/engagement offered, and customers will be able to pick products themselves or have it built for them.	Blend of flexibility and guaranteed income (in-house annuity) in development to launch later this year.	Available to wider market later this year.
Insurer	Engagement to educate savers from 45 (minimum pot size around £30k). Comms ramped up on approach to retirement with engagement moments e.g. adding beneficiary, retirement date or other details.	Building a blended product with cash, drawdown and annuity. Aware CDC could provide the later stage steady income in future too.	Developing for own members initially with potential for transfers-in in future.
Single employer trust	Webinars, online info and sessions with a pensions consultancy offered to employees. Free advice session offered through a partner firm.	Signpost to a partner Master Trust which offers a range of decumulation options.	N/A
Master Trust	Wake up packs and comms begin from age 50, and an online retirement information hub. Currently working with a new tech provider to enhance online offering.	Guided retirement fund which members over £10k are defaulted into. No drawdown or annuity but the framework aims to cater for shorter and longer term financial needs in retirement through UFPLS withdrawals.	Own members only
Master Trust	Digital and phone guidance offered, online modelling tools, risk warnings built in, and members are directed towards advice if their needs appear complex.	Aim to base a sustainable retirement income around drawdown, though members can access an open market annuity if they want.	Initially their own members, but in future they could take on external business, especially if small pots issues were resolved to improve scale.
Master Trust	Very limited as they have a strong conviction that it is best to mostly direct members to PensionWise at decumulation.	No products or solutions currently offered, most members cash out or transfer pots elsewhere. Might look at CDC decumulation in future.	N/A
Single employer trust	Looking to increase level of member comms to improve understanding of retirement options.	Would like a bulk transfer of DC members to a Master Trust at decumulation. Failing that, looking for decumulation options to signpost to, should transfers without consent be too difficult.	N/A



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