The trustee role in retirement planning

Aviva policy manager, workplace savings, Dale Critchley, examines the role trustees play in members' decumulation phase

The role of a trustee is changing. After years of helping savers turn income into pension wealth, there is a growing expectation that they will also help turn pension wealth into an income in retirement.

Decumulation has been described by William F. Sharpe, the Nobel Prize winning economist as "the nastiest, hardest problem in finance". It is a puzzle made more difficult for trustees by the fact that they are looking to act in the best interests of members with varying levels of wealth, needs, and ambitions, in retirement.

What does government expect of trustees?

The Department for Work and Pensions (DWP) consultation response[1] makes it clear that government will regulate to ensure trustees offer a suite of decumulation products and services which are suitable for members, and which are consistent with pension freedoms. This will include a default solution which operates on an opt-out basis if savers make no active choice.

Nausicaa Delfas, CEO of The Pensions Regulator (TPR) has indicated that interim guidance for trustees will be published in 2024[2]. The longer-term ambition is that "over time, all workplace schemes should become full-service providers …. providing services for saving into a pension, accessing pension savings and post-retirement support"[3].

The direction of travel is clear. Schemes will be able to link to other schemes to help turn pension wealth into income, but this is a stepping stone towards a future where defined contribution pension schemes provide a whole of life solution.

What is the problem?

Improved flexibility has opened opportunities to provide a retirement income that meets the individual needs of savers, but increased choice brings an increased risk of making a mistake. As defined contribution pots grow, both in value and importance, those mistakes are becoming increasingly costly. Data from the Institute for Fiscal Studies (IFS) shows that almost 45 per cent of pension savers in their 50's have defined contribution pensions only[4], a number which is surely set to increase.

The data[5] suggests that some people might not be making the best choices with 40 per cent of savers withdrawing more than 8 per cent of their pension pot in 2021/22, and that people are unprepared for the choices they will need to make. Aviva's Planning for Retirement in the 2050s report[6] found that amongst middle earners set to retire in the 2050s, nearly half said they did not know what they would do with what could be a typical defined contribution retirement pot of £225,000. One in ten said they would cash it in, triggering a tax bill of £73,539.50 and equivalent to their final 15 years' contributions.

Savers are looking for help. Almost three-quarters (72 per cent) of savers said they would like unbiased advice, but only 10 per cent of people in this middle-income and middle-aged group had taken advice.

What can trustees do?

It is clear that members are looking for help, advice, and guidance, and that should start well before retirement age. We see a spike in people taking benefits at age 55, simply because they can. Small pots seem especially susceptible to early access, something that could be mitigated through promotion of individual consolidation.

There is demand for advice, but savers are often at a loss when it comes to finding a trusted adviser. Trustees could consider working with employers to signpost to an advice firm and utilise employer and employee allowances to promote tax advantaged advice.

The Association of British Insurers (ABI) has recently demonstrated the potential for personalised guidance[7] with a remarkable 62 per cent increase in people choosing the right option when provided with a choice framework delivering personalised guidance.

Which products should trustees consider?

While the long-term view is that schemes should offer in-scheme solutions, the current position is that few trustees outside of master trusts offer a drawdown pension within their scheme. Solutions like collective defined contribution are some way off becoming a reality and will require the kind of scale that will not be achievable for most employers in anything but multi-employer schemes.

For most trustees, the DWP's suggestion that they partner with a provider to deliver decumulation options will be the way forward.

Trustees should be well equipped to assess the relative quality of decumulation service providers, and the advice market has a wealth of insight to share. But seeking a solution to "the

nastiest, hardest problem in finance" is not easy. Unlike in accumulation, there is not a universal good outcome.

Achieving the maximum level of predictable regular income could be assumed to be the aim. But what about the saver who experiences less than typical longevity? Or the saver who plans to spend more in the early years of retirement?

Pension freedoms opened-up options to play-off each of the measures of good value against each other.

- Level of income
- Certainty of income
- Inflation protection
- Flexibility of income
- Income or a capital return to beneficiaries on death

Schemes will have members who prioritise each of these factors differently, and for whom a single view of what good looks like is not going to be an optimum solution.

Trustees need to make conscious decisions and should be wary of the pseudo default; the line of least resistance that will be exposed by a pension scheme population seeking the simplest way to access their pension. They should already know what this looks like, and what the possible detriment is for their members through interrogation of their scheme data through systems like Aviva's Insight Hub.

The aim should be to direct members from 'easy' to their personal version of good. That could be through the provision of advice. It will involve guidance, but it will also include links to a trusted provider who can deliver the range of products and support that savers might need throughout their retirement, including an appropriate default.

Defaults that cannot be undone risk material and permanent disadvantage to members, depending on their personal circumstances. For example, there are thousands of savers who access tax-free cash while working, and for whom the provision of an immediate income could be detrimental.

Aviva is developing its 'Guided Retirement' solution, which aims to provide savers with tools to enable them to vary the proportion of their pension pot that they allocate to provide a flexible income, discretionary spending, and the amount set aside to provide a guaranteed income in later life. The same tools, and communications throughout retirement, will guide pensioners toward an optimal income while allowing them the flexibility to make their own choices based on their personal circumstances. Importantly, members are not tied into a single pathway, so if a life event happens, different choices can be made.

There will likely be a range of solutions that trustees will need to consider, they will need to lean on expert advice, but when seeking a way though the decumulation maze they should not lose sight of the diverse needs of savers.

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