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Dear Retirement Decisions Call for Evidence Team

**USS response to Call for evidence: Helping savers understand their pension choices: supporting individuals at the point of access**

The Universities Superannuation Scheme (USS) welcomes the opportunity to respond to this call for evidence. We are mindful that USS is very different to most UK pension schemes, given its open status, size, resources and hybrid nature. Proposals that might be appropriate for the generality of schemes may not be appropriate for USS.

**About USS**

By way of introduction, Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and higher education institutions in the UK. We work with around 330 employers to help build a secure financial future for 528,000 members and their families. USS is primarily a defined benefit (DB) pension scheme; we are one of the largest pension schemes in the UK, with total assets of around £75.5bn (at 31 March 2023); this includes £27.7bn (at 31 March 2023) of private market assets (the default fund in our defined contribution or DC part also includes a significant allocation (c.20%) to private market assets). The scheme remains open to future DB accrual for both new and existing members, with members also able to build up DC benefits. As a non-associated multi-employer scheme offering DC benefits USS is an authorised Master Trust.

The trustee of USS is Universities Superannuation Scheme Limited (USSL), a corporate trustee which provides scheme management and administration from its offices based in Liverpool and London. The trustee is regulated by The Pensions Regulator and has a legal duty to ensure that benefits promised to members are paid in full on a timely basis.

USSL delegates implementation of its investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services. USSIM is authorised and regulated by the Financial Conduct Authority.

**Universities Superannuation Scheme Ltd**

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USSIM manages between 60% and 70% of the investments in-house and appoints and oversees external investment managers to manage the rest. This allows the investment approach to be tailored to the scheme's requirements and provides us with a unique perspective compared to many other institutional investors. USS aims to be an active, engaged, long-term and responsible owner of the companies and assets in which it invests.

## **Responses to Questions**

This consultation proposes a default service is put to members who look to take DC benefits. We recognise that this could be a very valuable service for DC members, who are often faced with complex decisions about how to use their benefits to support their retirement and may not be equipped to navigate these decisions on their own, including selecting suitable retirement products from the many available on the open market.

USS, like many other providers and schemes, has taken a number of steps to improve both member support and access to decumulation products, but have taken care to ensure that these are, and remain, appropriate for our membership. In our case, as a hybrid scheme where all members with DC benefits will have DB benefits, most members access their DC benefits alongside taking more significant DB benefits - in these cases, we observe that a majority of our members make the choice to use their DC benefits to maximise tax free cash. Taking all DC benefits as cash might be unusual in another scheme but our members usually take this approach as an alternative of converting DB benefits to cash.

Therefore one of the main themes of our response is that the choice architecture and range of options provided should not be made too prescriptive; instead trustees should be given principles and examples to follow, along with the freedom to tailor their approach accordingly to their members' needs. DC pension scheme members' outcomes will, in our view, be much better where trustees can provide information and guidance which reflects the actual choices to be made and options available, rather than a 'one-size-fits-all' process.

Please find our response to the specific questions raised in the following pages.

### **Question 1: Should it be up to trustees to determine the other suitable suites of products?**

Yes - trustees are best placed to make this assessment, though there should be: a) guidance provided around how "suitable" should be assessed, and b) a clear definition of a standard/expected minimum suite of products/solutions.

Trustees that choose to not offer access to the standard/expected minimum decumulation solutions should be required to set out why they believe it is not in the best interests of their members to do so.

### **Question 2: What can government do to help a CDC-in-decumulation market emerge?**

USS is not best placed to provide input here, but we note that if the intent is promote greater collectivisation in decumulation, any government intervention should reflect the need for a CDC-in-decumulation market to work in parallel with the more individualised approach that has emerged since the freedom and choice reforms.

### **Question 3: We would welcome views to understand what are the minimum requirements that trustees should put in place for members facing decumulation?**

As a minimum, trustees should be required to signpost “scheme standard” options that enable members to:

- access a secure lifetime income;
- access their pot flexibly, having taken tax free cash (FAD); and/or
- take lump sums (UFPLS).

The decumulation offer(s) should be easily accessible and clearly communicated to members, including the costs, but care should be taken to avoid a default path or other nudges as choices will be very individual – the member should be in no doubt that they are choosing how to access their pot.

**Question 4: What factors should a trustee / scheme take into account when developing their decumulation offer?**

We would point to four key factors:

- The needs of their membership – for instance the type of benefits they have, their demographics and likely behaviours, based on evidence;
- Ease of understanding – decumulation products should be simple to understand;
- Value for money – the products offered should provide value to members in terms of both quality and costs. All costs and charges should be easily visible to help enable a direct comparison with other products available on the market. A set of guidelines should be produced to help trustees identify ‘value for money’ products.
- Product specific restrictions/limitations – trustees should ensure products are available to all members, particularly members with smaller pots (although we note some lower limits may be apply, such as minimum pot size when purchasing an annuity).

**Question 5: We would welcome views to understand if these are the right questions to capture the majority of ways an individual will want to use their pension wealth?**

We question whether the significant departure from the investment pathway approach, which is based on desired use of the funds, is appropriate. The pathway questions relate to more concrete actions that members could undertake, and would therefore be easier to understand and link to the provision of particular pension and investment products.

**Question 6: Are there any other questions we should include in the framework?**

We would suggest the following questions could also be helpful, when adapted from the existing investment pathways options and with the same 5 year horizon:

- Do you have no plans to touch your money?
- Do you want to use your money to set up a lifetime income?
- Do you want to start taking money as a long term, flexible income?
- Do you want to take out all of your money?
- Do you want to do a combination of these things?
- Do you want to do something else?

Further questions would be needed to guide members who desire a lifetime income, reflecting the differences between annuities and any novel CDC options. Similarly, further questions will be needed to guide members through any decisions about UFPLS and FAD as alternatives.

**Question 7: We welcome views on whether you see any issues with this approach and whether there are potentially any implications due to the advice/guidance boundary.**

We would need to consider more detailed proposals for the requirements before commenting definitively. However, whilst it should be possible for trustees to provide access to products / services and communicate what they are, if the proposed approach is to link simple questions like the above to a seemingly 'easy' path for members to select a retirement product then this is likely to be risky for members. In isolation there is a risk that members perceive signposts to decumulation options/products to be trustee endorsed, or to be advice from the trustee as to the right solution for them. Very clear guidance around how these options should be communicated to members is therefore essential, along with a requirement to position them alongside clear signposts to Pension Wise and Money Helper, including the Money Helper Retirement Advisor Directory. In a scheme like ours we would not be supportive of any choice architecture that resembles a 'default' path like there is in accumulation, as member situations are too variable.

**Question 8: Do you have any suggestions for key metrics or areas that would need to be included if the proposed value for money framework was extended to decumulation or suggestions for where proposed metrics may no longer be required?**

It is unclear if this refers to the value for money provided by the decumulation providers or by the scheme required to provide access to decumulation products (if they are different). One approach could be to require trustees to review the value for money of the products they offer/signpost to as part of the framework. We agree that some metrics in the value for money framework may be easily extendable to decumulation in some circumstances, but these requirements would need to fall on the decumulation provider (trust or contract based), not the signposting scheme, as they will hold the information, which will likely not be available at a origin scheme level and will ultimately be responsible for the outcomes of their members/customers.

**Question 9: Do you have safeguards in place for members in the decumulation stage? If so, what are these safeguards and what information do you provide to members?**

USS does not currently administer pension savings that are in decumulation. However, we have developed a comprehensive retirement proposition for our members as set out below Q18, and have done so in a way that we believe is in line with best practice. This involves governance of all of the arrangements to ensure that they continue to offer value for money to our members, in terms of fees, product and service.

Whilst this governance is in place to promote good member outcomes we do not believe that the accumulation scheme should, or even could, take ongoing responsibility for safeguarding people who have transferred out to another scheme or bought an annuity, as that responsibility properly rests with their chosen provider.

**Question 10: Do you use the same charge structure as you do in the accumulation stage?**

We do not offer decumulation products, apart from uncrystallised funds pension lump sum (UFPLS). Our signposted drawdown provider operates with different charge levels (investment and administration) to our accumulation charges, most of which are employer subsidised.

**Question 11: We would welcome views to understand what are the practical considerations of partnering arrangements?**

One practical consideration will be ensuring that there is a well functioning market for decumulation partnering. There is no guarantee that an accumulation provider will be able to find a partner offering value for money. In addition, the costs of integrating in examples 1 and 2 given will mean that for many accumulation providers, using their existing relationships with TPAs will be very attractive.

In addition, it will be important that an appropriate oversight framework is in place to ensure the provider meets a suitable standard from appointment and on an ongoing basis. Having an industry-wide set of standards/expectations will significantly help trustees make these assessments.

**Question 12: Should government set out a minimum standard partnering arrangement?**

Yes. Having a minimum standard in the style of a code of practice will help trustees assess the various options available.

**Question 13: a) Should all schemes be allowed to establish partnership arrangements or only schemes of a certain size? b) If only a certain size what should that be?**

This should be open to all schemes that can demonstrate they can meet the code of practice/guidance.

**Question 14: Is there a role for a centralised scheme to deliver decumulation options, where trustees are unwilling or unable to offer these directly?**

There could be a role for centralised arrangement, to ensure all schemes can provide access to members, but it must operate on a consistent and fair footing with commercially available providers (we do however recognise the important role that NEST has played in auto-enrolment and could foresee a role for them in decumulation other than the scope considered in Question 18).

**Question 15: We would welcome views on if there is an alternative to our approach for legislation that would achieve the same results?**

**Question 16: We want to work with industry during the implementation of these proposals; what timeline should we work to implement these changes?**

**Question 17: When we introduce legislation should this only apply to Master Trusts in the first instance?**

We have answered these three questions together.

We agree that it makes sense to develop a guidance-based approach first - this will be quicker and more flexible and reduce the risk of ineffective or inappropriate legislation which is high in this area.

With sufficient guidance and support any well-run trust-based scheme should be able to make the necessary arrangements to comply with new requirements. However, there may be some merit in applying these to Master Trusts in the first instance as this should enable a shorter initial implementation period to be applied, allow for the requirements to be tested and refined on a smaller group, and help mitigate a rush on appointing providers.

In terms of timelines, we appreciate the growing need as the DB to DC shift continues, but also reflect on the very large number of new requirements being placed on schemes currently. Prioritisation to ensure effective delivery will be important, across the dashboard, value for money, investment and decumulation policy areas.

**Question 18: Do you have views and evidence on how this can be delivered in ways that achieve our policy aims of stimulating CDC in decumulation, enabling Nest to provide the services outlined in this consultation, while ensuring a healthy competitive marketplace?**

We offer no view in response to this question.

**Products and services ‘Baseline’ table**

Please find below our input on the products and services listed under paragraph 77 to inform DWP’s baseline.

<b>Products and services</b>	<b>Offer?</b>	<b>No, but partner with external scheme/third party?</b>	<b>Plan to develop?</b>
Annuity	Not directly	Yes (signpost to whole-of-market broker, with guidance).	n/a
Flexi-access Drawdown	Not directly	Yes (signpost to Master Trust)	n/a
Uncrystallised Fund Pension Lump Sum	Yes.	n/a	n/a
Decumulation-only CDCs	No.	No.	Not at present; limited relevance.
Other product or service	Yes: at/pre retirement guidance offered that reflects hybrid benefits so is more tailored than Pension Wise. Signposting to financial adviser that the Trustee has selected should members wish to use them.	No.	No.

<b>Communications</b>	<b>Offer?</b>	<b>No, but partner with external scheme/third party?</b>	<b>Plan to develop?</b>
Wake-up packs	Yes – issued 4-6 months before scheme NPA (age 66 at present).	n/a	n/a

Other age-related communications in accumulation	Yes – lifestyling letters are issued 5 and 10 years prior to target retirement age.	n/a	We are also developing age related communications plans including a ‘preparing for retirement’ segment.
Post-access communications	No.	No.	Considering development of communications for a small but growing group of members who have decided to leave their DC pots uncrystallised after retiring from the DB section. These members are technically still in accumulation so will continue to receive an annual SMPI statement.

**Question 19: Are you able to quantify any of the one-off or on-going costs at this stage?**

We are not able to quantify the costs. USS already has arrangements in place to signpost to a drawdown provider and an annuity service, as well as in house UFPLS, so we have already incurred significant cost to support members with accessing their DC savings.

**Question 20: Are you able to provide a breakeven point in pot size for providing certain decumulation products or services? Would this be different for decumulation only CDC’s?**

We offer no view in response to this question.

**Question 21: What benefits do you expect there to be from the proposals for members/schemes/wider)? Do you think they are quantifiable?**

Providing members with access to a well-chosen range of products to either remove the need to undertake their own shopping around, or to use as a starting point for further comparison for better informed and more engaged members, should be a significant benefit. Members should feel more supported at the point they make a decision and find it easier to find a product / services provider.

Without full cost transparency it will still be difficult for members to understand the true value of the option they choose and compare this with other options/solutions, but the trustee selected option can help mitigate this risk with effective due diligence and oversight, while also being aware that the trustee can only provide members with guidance and information. Quantifying this is difficult to achieve, though if post-retirement member feedback can be collected this should provide valuable insight and inform trustee oversight and future development.

**Question 22: Do you think the benefits from the proposed changes outweigh the costs?**

Yes,. Whilst in USS's case - as a hybrid scheme - member DC decisions will remain relatively simple for most, in the overall DC market over the next year the shift from DB to DC benefits will increase the benefits from these proposals, whilst the market for provision should be expanding, reducing the costs.

We hope that our response to this call for evidence will assist in your deliberations. Please let us know if we can provide any further information or assistance.

Yours sincerely

A handwritten signature in cursive script that reads "Richard". The signature is written in dark ink and is positioned above the printed name and title.

**Richard Williams**  
**Head of Corporate Communications and External Affairs**