Summary
• Investment Pathways were introduced by pension providers in February 2021, aiming to increase engagement and reduce funds left in cash or cash-like investments.
• Early research suggests savers are mostly still 'sidestepping' engagement with their pensions to continue as they are.
• Providers are supportive but already identifying ways that Investment Pathways could be improved.

Pathways to engagement

Are Investment Pathways working? Andy Knaggs speaks to pension providers to gauge the early response levels and experience of the new 'ready-made' pension investment options

Investment Pathways were introduced by the Financial Conduct Authority (FCA) from the start of February 2021. Ahead of this, FCA said an estimated 100,000 savers were entering pension drawdown without taking advice each year, amid concerns that many people approaching and reaching retirement age were simply taking tax-free cash and/or leaving pension funds in investments that might not give them the optimum pension pot when they retire.

Pension providers were required to give pension savers a choice of four 'ready-made' retirement investment objectives to follow for the next five years. They could choose to: 1) Leave their money untouched for the next five years; 2) Use their money to set up a guaranteed income within the next five years; 3) Start taking money as a long-term income in the next five years; or 4) Take out all their money in the next five years.

Pension scheme providers have therefore crafted Investment Pathways based on the broad definitions given, and earlier this year, they became available to their scheme members. So, what has been the response? Which options are proving most popular? What early lessons can the industry take from the first 10 to 11 months of Investment Pathway availability? To what degree are they meeting the objectives they were designed for?

Sidestepping

The Defined Contribution Investment Forum (DCIF) released details of the Investment Pathways research it commissioned in early November 2021, based on feedback from providers. The research found that "most members are sidestepping Investment Patthways altogether", with the majority choosing to remain invested as they already are.

"While this meets one of the FCA's objectives for Investment Pathways, namely that members don't end up in cash after taking their tax-free lump sum, it misses their second objective, that members give thought to how they wish to use their remaining retirement savings," said the DCIF's press release.

The research and subsequent report was carried out by Richard Parkin Consulting, on behalf of the DCIF. Speaking to *Pensions Age*, Richard Parkin referred to "laudable aims" coming up against a "perennial challenge" – namely, the difficulty of increasing people's engagement in pensions and retirement provision.

"I think it was very laudable, but a lot of people's mindset is about taking tax-free cash – they are very clear and confident about that, but they haven't got a clue about what to do with the rest of it," says Parkin. "What I have heard is that it is very difficult to engage people in thinking about the future. It's the perennial challenge. If someone knows what they want to do, Investment Pathways can be very good, but it's a much bigger problem with human behaviour: How do you get people to engage with retirement?"

Immaturity

So, what of the pension providers – what

has been their experience thus far with Investment Pathways? Fidelity International points out that it launched the pathways for its workplace and retail customers in October 2020 – some four to five months before the official launch date.

Fidelity International head of pension products & policy, James Carter, says it is important to note the relative immaturity of the DC market in terms of the size of DC pension pots accessed, and the likely degree of reliance on DC pensions for lifetime income. He references FCA retirement income market data that suggests that "many DC pots are being accessed at a relatively early age, simply to take tax-free cash", most likely while the recipient is still working, subject to auto-enrolment and/or still accumulating. Any view of take-up of Investment Pathways needs to be considered in this light.

"My early observation is that the four objective-based solutions do resonate with customers when offered," says Carter. "The key is to keep customers engaged so they reconsider their investments when making defining decisions about their retirement. My view is that it will be some time before pot sizes grow and emerging retirees become more reliant on DC pots for lifetime income – it is then that a truer pattern of behaviour will be observed.

He adds that Fidelity is extremely supportive of Investment Pathways, and that it is important to remember that they were introduced to prevent the poorest outcomes that were being observed in parts of the market – for example, consumers being invested wholly in cash when in drawdown. "When used, they can improve outcomes for non-advised consumers, particularly those in workplace schemes who are not confident in choosing, or are not wanting to choose, their own investment funds."

Carter concludes by observing that Investment Pathways were not intended to replace or reduce the need for independent financial advice, particularly where a pension saver has complex requirements.

Refinement

Interactive Investor head of pensions and savings, Rebecca O'Connor, says she believes there is already a case to review some of the pathway options – specifically that Pathways 2 and 4 "need refinement so they are more appealing". The provider reports that less than 5 per cent of its customers entering drawdown have chosen an Investment Pathway instead of sticking with their current investment strategy. Pathways 1 and 3 have been most popular, while Pathway 2 is proving the least popular.

"Very few people are planning to take an annuity or access all their funds in the next five years at the point they start thinking about drawdown," says O'Connor. "That's a sign of the times – early retirement is a rare thing these days and the lack of uptake of these options backs this up. Most people are making these decisions, presumably, at age 55 – still relatively young and far off actual retirement.

"We have always been supportive of the rationale for Investment Pathways, particularly now that inflation is rising, and the risk of keeping pensions in cash rather than invested in the markets is more of an issue. However, the early data suggests that the vast majority of people accessing pensions for the first time are not considering pathways as an option. Hopefully we will see an increase in use and uptake over time, but the Money and Pensions Service (Maps) may need to do more to promote the benefits and boost understanding."

Complexity

Low levels of engagement are also reported by PensionBee, although it points out that as a "modern, simple to use provider with a carefully curated, small plan range", many of its customers are "already in a plan that meets their needs and retirement objectives".

PensionBee chief engagement officer, Clare Reilly, believes that the introduction of Investment Pathways has also brought about something else: unhelpful levels of complexity. She says: "The real problem with Investment Pathways is that the products themselves are wildly incomparable, including on the Maps tool. Providers have translated the FCA guidance for each pathway in completely different ways, that create much additional complexity for a saver. They cannot compare a pathway option across different providers because it's like comparing apples with oranges or lemons. It's deeply unhelpful for savers.

"Also, it's still hard to get the information you need on what's under the bonnet for each plan, adding complexity again to something that should be really simple and consumer-friendly."

Conundrum

The industry, it seems, wants Investment Pathways to work, but ongoing experience is starting to shape ideas on how they can be improved to work better. While Reilly suggests they are already too complex, O'Connor suggests that the regulator could introduce additional pathways that are similar but with different time frames, to reflect the wide variety of needs and life circumstances. The choice/complexity conundrum is a difficult one.

But let's conclude with a qualified positive outlook, put forward by O'Connor: "For that small number of customers who are choosing a pathway rather than putting their pension in cash, the benefits will be really important, so it's important to note that the initiative will already be helping some people avoid the risk of cash and that's a success, even if it's not many people yet."

Written by Andy Knaggs, a freelance journalist