

Consultation Response

Retirement Outcomes Review: proposed changes to our rules and guidance

Financial Conduct Authority 1e3 P8181e3 /17

About this consultation

This consultation by the Financial Conduct Authority is about potential changes to its rules following the completion of its Retirement Outcomes Review (ROR). The ROR was a two-year project that L Q Y H V W L J D W H G W K H L P S D F W R I W K H μ I U H H G R P D consumers, consisting of an interim report in 2017 and a final report published in June 2018. The research identified a number of issues for consumers, principally the impact on people without access to financial advice who move their savings into income drawdown accounts, often so they can access their 25 per cent tax-free lump sum. This consultation paper makes a series of proposals to amend the regulatory rules to try and improve outcomes for this group.

Key points and recommendations

- x \$ J H 8 . Z H O F R P H V W K H) & \$ ¶ V 5 H W L U a n d P t h e P r o p o s a l s W i t h P H V 5 H Y consultation paper. We believe these are a positive step forward for people accessing their pension, in particular non-advised drawdown customers.
- x We fully support the proposed investment pathways, and we are optimistic that these

products is letting down consumers with small or average size savings. We hope that the) & \$ ¶ V SURSRVDOV V X F K D V D G U D Z G R Z Q F R P S D U L V R Q W R R are highly unlikely to provide the full solution.

We hope all these issues will progress in the near future, but in the meantime we welcome W K H) & \$ ¶ V SURSRVDOV D e f e r r e d d o w n m a r k e t W K H Q R Q

2. Consultation questions

Chapter 3 ±Protecting Consumers from Poor Outcomes

Q1: Do you agree with our current high-level thinking on the key elements of our potential remedy? If not, what would you suggest?

Q2: Does the approach we are considering taking adequately capture the objectives of non-advised consumers entering drawdown who might use the investment pathways? If not, what would you suggest?

Age UK is very supportive of the investment pathway concept as a means to improve R X W F R P H V I R U F X V W R P H U V Z K R D U H O G L N I H T X O W Q H G Y I D Q W R U F B Q drawdown.

We are pleased that customers who take their tax-free lump sum, and are then defaulted into cash R U µ F O L N H ¶ by the provider, have been identified as a potentially significant issue by the FCA. We agree that such customers are at particular risk of poor outcomes. The investment pathway concept should help this group in particular achieve improved outcomes.

7 K H 5 H Y L H Z ¶ V I L Q G L Q J V W K D W D v w h e r e t h e r e a r e d i f f e r e n t F H D U F K L choices to consumers with a clearer explanation/guide of how to take decisions ±leads to better outcomes are important in the design of all retirement income pathways. While we agree that implementing investment pathways is important, we believe this can operate most effectively as part of a broader system of µ Q X G, also including pensions guidance and retirement income products.

This is not to say that the FCA should not proceed with the current work ±on the contrary, it is big step in the right direction D Q G Z H D S S O D X G W K H o w e v e r ¶ t h e r e a r e S U R D F K wider issues affecting consumers that this alone will not resolve.

For example, the lack of shopping around is not considered in the consultation, and, indeed, many of the solutions offered appear predicated on consumers staying with their provider. While it is, of course, perfectly possible to still shop around, we are concerned that the nature of the communications around an investment pathway may provide an additional barrier for consumers to do so. The language used and the style, method, and timing of presentation should all be designed with this in mind, and appropriate messages about shopping around delivered alongside them.

The prescribed objectives ¶ O L V W H G L Q W K H F R Q V X O W D W L R Q S D S H U V pathways would need to relate, copied here for reference, are:

- x I want my money to provide an income in retirement
- x I want to take all my money over a short period of time
- x I want to keep my money invested for a long period of time and may want to dip into it occasionally

We agree with the FCA that this approach is sensible, and these broadly match the different choices that consumers will take. It is important, however, that people are able to move from the investment strategy into appropriate products. With the lack of innovation in the income product marketplace for non-advised customers, this might be difficult. However, as the marketplace develops over the longer-term, the investment pathways will Q H H G W R E H I O H [L E O H V R D V W R D G M X V W W R V D Y H U V ¶ S U H world choices that individuals are making.

This highlights the importance of the complete package of reforms ± guidance services, product pathways and product innovation, all working in tandem to ensure that investment pathways are delivering for consumers.

Q3: Do you agree with our suggestion that firms should only offer one investment solution in respect of each of the objectives? If not, what would you suggest?

While we agree the three listed objectives are appropriate in a broad sense, there are likely to be subgroups of customers who may benefit from a more refined approach. For example, the best investment strategy for someone who wishes to withdraw their savings ³ R Y H U D V K R U W S H depends on when they want to start the withdrawals. A different investment strategy may be required for someone who wants to wait until State Pension age before spending down their pension, and someone who wishes to do this at age 58.

We recommend that the FCA closely examines the role that IGCs can play in setting or scrutinising ILUPV¶ LQYHVWPHQW VWUDWHJLHV 7KH\ DUH OLNHC WKH W\SLFDO QHHGV RID ILUP¶V FXVWRPHUV

Q4: Do you agree with our suggestion that firms should not be permitted to provide a single investment solution to cover all of the objectives? If not, what would you suggest?

We agree that firms should not be permitted to provide only one investment solution. Firms should ensure that all customers are given the best possible chance of achieving a good outcome. For larger schemes with a diverse range of customers, offering a limited range of investment pathways will be essential. Even for smaller schemes serving a single occupational group or employer, members will want to meet different saving objectives and so will need different solutions in place to achieve this. Having more than one solutions is the only viable approach.

Q5: Do you think that firms should offer investment solutions for all the investment pathways? If not, what would you suggest? If a firm does not offer an investment solution for a particular investment pathway, should it be required to enter into an arrangement with another firm to provide it?

Q6: Do you agree with the approach we are considering taking on prescription around the investment solution and risk profile of investment pathways? If not, what would you suggest?

Q7: Do you agree with the approach we are considering taking on permitting firms to use pre-existing investment solutions to offer an investment pathway? If not, what would you suggest?

Q8: Do you agree with the approach we are considering taking on allowing firms to offer investment solutions other than investment pathways? If not, what would you suggest?

The default should be that firms offer investment solutions for each investment pathway, which should be agreed with their IGC as a form of quality assurance. There could be an exemption where they can demonstrate that they have few savers who wish to pursue one

particular outcome. When this occurs, they must work with other providers to ensure no-one is disadvantaged.

As firms face commercial pressures that are not always aligned with consumer interest, we reiterate the point that IGCs may be better placed than the firms to decide which alternative arrangements are suitable for customers and when these should be offered.

Q9: Do you agree with the approach we are considering taking for the choice architecture to be implemented by firms? If not, what would you suggest?

The structure of the choice architecture appears reasonable, although will need real-world testing to confirm its suitability. Our main concern is that there does not seem to be a built-in mechanism to encourage shopping around to get a better deal – we believe this is an important part of the process and should be included.

Q10: Do you agree that investment pathways should also be made available to advised consumers? If not, what would you suggest?

Q11: Do you agree with the approach we are considering taking on how we should define advised consumers for the purposes of the application of our rules on investment pathways? If not, what would you suggest?

We agree with the FCA's approach on both these points.

Q12: Do you agree with the approach we are considering taking in relation to circumstances where consumers are designating funds to drawdown on multiple occasions? If not, what would you suggest?

Q14: Do you agree with the approach we are considering taking for ongoing disclosure to consumers about investment pathways? If not, what would you suggest?

Q25: Do you think we should carve out from the requirement those providers which only provide decumulation products for advised consumers, or those in less need of protection? How would this work?

Q26: Do you have any other issues or concerns about the proposals?

We agree that independent oversight should apply to other decumulation products. There should be oversight at all points in the retirement income journey, up until (and including) annuity purchase. This is especially important since consumers rarely shop around in this marketplace.

We are also concerned by the seeming lack of innovation in the retirement income marketplace. It is apparent that there has been little product development in the drawdown space for mass-market consumers, and we believe the Government and the FCA need to act to foster a competitive and innovative culture, which is likely to be best achieved through regulation. I Q W K H P H D Q W L P H E H W W H U R Y H U V L J K W R I W K H firms to deliver better value and more appropriate products.

We also have a concern, as mentioned in our response to question one, that the investment pathways may result in a further reduction in the number of people shopping around. While no additional practical barrier may be in place, choosing from one or three pathways with the existing provider may feel psychologically like an additional incentive to stay in a well-known, seemingly safe harbour, reducing the incentive to look elsewhere. The presentation of the options, as well as the language and style used, is of crucial importance, while signposting to Pension Wise at all points is imperative. We believe the FCA will need to regulate this presentation to ensure that people do consider all their options from across the wider marketplace.

Q27: Do you agree with our current thinking that a single, default investment pathway is unlikely to be suitable in drawdown? If not, please provide reasons why you disagree.

Yes, we agree the proposed approach focussed on three different pathways is more appropriate.

Q28: Do you agree with the approach we are considering taking to require making investment wholly or predominantly in cash an active choice? If not, what would you suggest?

Q29: Do you agree with the approach we are considering taking in relation to mandating warnings to those making an active choice to invest in cash? If not, what would you suggest?

Q31: Do you think we should require firms to issue warnings to consumers who are invested in cash on an ongoing basis? If not, what would you suggest?

As cash is likely to be inappropriate for the majority of savers, especially where they have no immediate plans to fully

We are comfortable with the FCA issuing warnings, although we believe the FCA should also encourage consumers to re-consider the investment pathways alongside the warnings. This may require regulatory supervision as there is a strong financial interest for firms determined to leave customers in cash, often while charging fees as identified in paragraph 4.61 of the final report.

Chapter 4, packs, retirement risk warnings and reminders.

4 change them?

We welcome the proposal for a single-page summary in the wake-up pack, which previous FCA research has demonstrated as being more engaging for consumers.

most DC savers, who are still working at age 55, they will not be retiring, merely accessing and the pension industry need to reconsider the rationale for wake-up packs and make it fit for the 21st Century.

Communications at this point should very much steer people away from accessing their savings, and focus on continued saving along with information about the investment pathways. We also agree with the Pension and Lifetime Savings Association that the term **Review by Default** is inappropriate. Instead, the whole process of access to pension savings guidance is

delivered alongside careers advice and tips for remaining active in the labour force. For further information see [§ JH 8.1 V GLVFXV on the subject](#) SHU

While we continue to support wake-up packs, there is a danger that they will turn accessing DC savings at age 55 into a social norm. While clearly already widespread already, we do not support anything that might exacerbate this, and the FCA should be H[DPLQLQJ PHWKRGV WKDW FDQ KH G E S W R C O H a t p w a y s O G R X W proposal represents an excellent opportunity.

Accessing guidance : signposting alone as part of the wake-up packs will often be insufficient to persuade people to access Pension Wise. The language in the packs can be tightened to include more active phrasing around using Pension Wise, however even this may not be sufficient.

Under the provisions in the Financial Guidance and Claims Act 2018, the FCA is required to establish a process by which individuals should access guidance. We continue to E H O L H Y H W K H U H L V D Y H U \ V W U R Q J F D V H I R U F U H D W L Q J D on an opt-out basis ±to Pension Wise. This would complement the new investment pathways and provide consumers

, W L V D O V R H V V H Q W L D O W K D W V X F K J X H G D Q 5 H y L V G H O L Y H providers themselves, as this would undermine trust and integrity of the system. We are also concerned providers would easily be able to game the process (even if sticking to a script), and persuade their customers not to shop around.

In effect, this means the new Single Financial Guidance Body would be crucial in its delivery. This seems a sensible solution that would at least allow pension savers the opportunity to understand and carefully consider their choices.

Q35: Do you agree with our proposal to mandate specific retirement risk warnings D O R Q J V L G - X \$ P S N H N V " , I Q R W K R Z V K R X O G Z H F K D Q J H L W "

Q36: Do you have any further comments on our proposals for retirement risk warnings?

Q42: Do you agree that the summary information should show a one-year single charge figure expressed as a cash amount?

We believe Key Features Illustrations are useful for consumers when they contain the appropriate information and are presented in an accessible way. Charges are an integral part of this. However, as the FCA highlights, there are up to 44 different charges applied to drawdown accounts, so we recommend that FCA tests a range of different options for calculating a relevant figure (or limited number of cost indicators if a single figure proves too misleading).

With such an array of charges, there may be opportunities arising for providers to game the system – the FCA must be vigilant and if necessary take regulatory action to close down attempts to exploit any loopholes.

Q44: Do you agree that a KFI should be provided when a client is accessing drawdown as an option or variation under an existing contract or UFPLS option under an existing contract, and also the first time they take an income (where this happens later)?

