Financial Conduct Authority
12 Endeavour Square
London E20 1JN

By email August 2021

Dear Sir/Madam,

FCA SMALLER BUSINESS PRACTITIONER PANEL RESPONSE TO PENSIONS CONSUMER JOURNEY CALL FOR INPUT[1]

The Panel is pleased to respond to the call for input. This is an important subject and given the amount of legislation and regulation in this area, we encourage the FCA to be clear about what it wishes to achieve and that the costs and benefits of any changes which result are carefully judged. We believe the following elements are the most important to be addressed.

Complexity and advice

Many factors, including the advent of pensions simplification, mean there is no longer a defined consumer journey, and for most consumers there will be considerably more touch points than the consultation suggests. There may, for example, be a hybrid accumulation and decumulation phase as consumers access lump sums and transfer them to other investments, or as they change employers and are offered different retirement savings options.

The consumer journey is no longer a linear one. For money purchase pots, the main decisions were at retirement (take tax free cash/type of annuity-single/joint/escalating or level) with no or very little further involvement thereafter. The new 'Retirementality' now means involvement of the consumer throughout. And as already pointed out the accumulation phase and the decumulation phase most likely now overlap.

As we know, working patterns have changed, and individuals may retire in a number of ways, including phasing, or going back to work after a year or two of retirement. Here again complexity means that various traps await those who may inadvertently fall foul of rules that are hard to understand, including tax-free cash recycling and the Money Purchase Annual Allowance (MPAA) - the annual pension allowance capped at £4,000 for those who may have taken any income at all from their pension fund. Again, the main anxiety for consumers is not understanding what they can safely draw from their pension funds to ensure it lasts them, how they should review their underlying investments, how the pension drawings are taxed and what the death benefits are for their heirs.

Other reasons why pensions in the eye of many consumers have a poor 'brand name', and some consumers do not 'believe in pensions' are the moving goal posts by the government (LTA/AA/Taper/Retirement age), or the worry of being charged tax by having overpaid or having built up too much over their lifetime – how will they know?

One element which we consider to be missing from the call for input is therefore the difference in experience between the advised and non-advised experience. Those who work with an adviser and those who don't have access to advice will have very different journeys – and this includes the anxiety for consumers of just not knowing, for example questions such as:

- What is the right amount that I should contribute to my pension?

[1] https://www.fca.org.uk/publication/call-for-input/pensions-consumer-journey.pdf

- Is an ISA better?
- What investment is right for me (eg based on my time horizon/risk/ethical preferences) in my pension, and how do I know that it suits me as my circumstances change?
- I don't understand pensions and the deluge of information I've been sent (key features/Find fact sheets/KIDS/Statutory illustrations/key features) so will consider another time (or invest in something I do understand, such as property).

The journeys for the different types of consumer, and the number of touchpoints (an advised client will have regular interactions with their adviser) will be very different. The complexity and the experiences of different types of customer need to be taken into account when considering engagement and looking for potential harms.

Role of the employer

The role of the employer is key to engagement with consumers. The introduction of auto enrolment has, on the one hand, been important for participation in retirement savings, but on the other, by simplifying the process, has in some ways reduced engagement. Employers have a role to play in filling this gap. For example, messaging from employers around the cost of delay could help to counteract the common view that 'pensions are for older people' – perhaps by expressing information about retirement as 'x number of payslips away', or similar. They are uniquely placed to help their employees understand better, and they should be tax incentivised to bring advice to the workplace, as should employees to take advice.

Relevance and relatability

The most important element for increasing engagement for consumers is relatability, of which employer engagement is one strand. Particularly for non-advised consumers, it can be difficult to relate to a goal which is seen as being in the far-distant future. Communications which celebrate intermediate goals, for example, help to encourage longer-term habits. When the goals and benefits are clear, such as for a 25-year mortgage, consumers will engage with long-term financial products – the challenge is to use language (such as 'freedom not to work' or 'flexibility') which makes saving for later life as tangible and relatable as paying for a house.

We are conscious that many of the barriers to engagement to later life saving, such as the complexity of the tax system, are not within the FCA's remit to change. However, encouraging the industry by publicising good practice, sharing case studies, and promoting innovation in communication, will help to build the foundations of better pensions engagement in future.

Yours faithfully,

[Signed]

MARLENE SHIELS
Chair, FCA Smaller Business Practitioner Panel