Retirement Outcomes Review: Proposed changes to our rules and guidance

Consultation Paper
CP18/17***

June 2018

How to respond

We are asking for comments on our proposals for discussion in this Consultation Paper (CP) by 9 August 2018. Stakeholders should respond to questions 1 to 33 and 47 to 49 by this deadline. We are asking for comments on our proposals for consultation in this CP by 6 September 2018. Stakeholders should respond to questions 34 to 46 by this deadline.

You can send them to us using the form on our website at: www.fca.org.uk/cp18-17-response-form.

Or in writing to:
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1 Summary

Why we are consulting

The Retirement Outcomes Review

1.1 Deciding how to use pension savings is one of the most important financial decisions people will ever make. The Government's 2015 pension freedoms provided more flexibility in how and when consumers can access their pension savings. At the same time, the freedoms require consumers to make more complicated choices about their retirement. These include important decisions on how to invest their pensions pots, when to withdraw income (and at what level), and the need to consider longevity risks.

1.2 The pensions and retirement income sector provides a way for 34 million consumers[1] to save for retirement or later life (accumulation), and to then convert their savings into retirement income (decumulation). It is early days and the market is still evolving as providers adapt to the pension freedoms. Defined Contribution (DC) pots are still relatively small for most current retirees and are often not their main source of retirement income. However, Defined Benefit (DB) schemes have been declining over a number of years and automatic enrolment has increased the number of people saving into DC pots. As a result, many consumers will rely increasingly on DC pots as a major source of retirement income over the medium and long term, alongside their state pension and any property wealth or savings.

1.3 In June 2016 we launched the Retirement Outcomes Review (ROR). We wanted to assess how the market is evolving, to address any emerging issues that might cause consumer harm and to put the market on a good footing for the future. This Consultation Paper sets out our proposed remedies in response to the findings of our review. We are taking action based on the evidence of how the market is working now, while recognising that the market will change over time as DC pots become larger and the primary source of retirement income for many. This may increase both consumer engagement and incentives for product innovation. The measures we are outlining here are therefore about dealing with current and near term issues. We are acting now to help consumers make informed choices and protect the less engaged from poor outcomes, but we will continue to watch this market closely as it evolves over the medium-term and take further action as needed.

1.4 Our review focused primarily on consumers who do not take regulated advice ('non-advised consumers'), on the basis that those taking regulated advice receive support already. Regulated advice is not affordable or appropriate for everyone, and our review focused on those who will look to their pension provider or public sources for support and guidance around their retirement decisions.

Our findings

1.5 In July 2017, we published our Interim Report (the Interim Report). It summarised our interim findings, and presented a range of potential remedies for discussion. We have

1 Regulating the pensions and retirement income sector: Our strategic approach, Joint call for input by the FCA and The Pensions Regulator; www.fca.org.uk/publication/call-for-input/call-for-input-regulating-pensions-retirement-income-sector.pdf

since undertaken further work to assess the extent of harm in the market, particularly focusing on investment choices and charges in drawdown. This Consultation Paper is published alongside our final findings report (the Final Report), which sets out our detailed findings. We summarise the key relevant findings below. The pensions and retirement income market is an important priority for the FCA. The market is still evolving, and it will be some years before most people are primarily reliant on a DC pot for their retirement income. We have identified harms and emerging issues that we are keen to address promptly, so the market is on a good footing for the future. This is why, for instance, we are asking for responses to the discussion questions within 6 weeks. We plan to publish final rules for all the remedies in this paper by July next year.

Many consumers have welcomed the pension freedoms

1.6 Many consumers have welcomed the pension freedoms and the ability to access their savings in ways they previously couldn't. From the introduction of the pension freedoms in April 2015 to September 2017, over 1.5 million DC pension pots have been accessed. Most (72%) consumers who accessed their pots did so before the age of 65. And over half (55%)[2] of all pots accessed were fully withdrawn. These were mostly small pension pots (88% below £30,000), and nearly all (94%) those who fully withdrew had other sources of retirement income.[3] Over half (52%) of the fully withdrawn pots were not spent but were transferred into other savings or investments.

1.7 Since the pension freedoms, we have seen substantial shifts away from annuities and towards taking drawdown without advice. Twice as many pots have been used for drawdown than to buy an annuity. A third (32%)[4] of these were accessed without advice, compared to 5% before the freedoms.

1.8 We have seen that many consumers, particularly when focussed on taking their tax-free cash, take the "path of least resistance" and enter drawdown with their existing provider. We expect levels of engagement to increase over time as pot sizes grow.[5] However, as pots become bigger, those who do not engage effectively could lose out on income in retirement, through poor investment choices or paying higher fees and charges.

1.9 While commentators have flagged the risk of consumers drawing down their pension wealth at unsustainable rates, we have not at this stage seen much evidence of this. However this is clearly something to watch, particularly as pot sizes increase and DC pension savings become a more central part of many consumers' pension wealth.

Consumers need further support and protection

1.10 For many, retirement income choices start with a decision to access tax-free cash rather than other questions. At that point, consumers face a range of complex decisions such as which provider to use, where to invest their remaining pot and how quickly to drawdown. They also need to think about how long they expect to live. We found many consumers who do not take advice struggle with these decisions, and many end up in investments that may not be right for them, including in cash.[6]

2 Of the total number of pots accessed for the first time since October 2015 (www.fca.org.uk/publications/data/data-bulletin-issue-12).

3 Our research was with consumers who had withdrawn a pension pot worth at least £10,000 without taking regulated financial advice. See the Interim Report and Annex 4 of the Final Report for further details.

4 Of the total number of pots accessed for the first time since October 2015 (www.fca.org.uk/publications/data/data-bulletin-issue-12).

5 See the Australian case study in Chapter 5 of the Final Report.

6 See Chapter 3 of the Final Report.

1.11 Our research[7] found that around one in three consumers who have gone into drawdown recently are unaware of where their money was invested. Others only had a broad idea.

1.12 We saw that some providers were 'defaulting' consumers into cash or cash-like assets.[8] Overall 33% of non-advised drawdown consumers are wholly holding cash. Holding funds in cash may be suited to consumers planning to drawdown their entire pot over a short period. But it is highly unlikely to be suited for someone planning to draw down their pot over a longer period. Our review estimated that over half of these consumers are likely to be losing out on income in retirement by holding cash.[9]

1.13 Someone who wants to drawdown their pot over a 20 year period could increase their expected annual income by 37% by investing in a mix of assets rather than just cash.[10]

1.14 Our evidence also suggests that if firms offer consumers a more structured set of options – making the decision simpler to navigate – it can improve the investment outcomes for consumers, better aligning with their objectives in retirement.

1.15 We are also concerned about the high proportion of consumers fully withdrawing their pension pots to move savings elsewhere. In many cases, keeping money in a pension would have resulted in better returns, on average, and in paying less tax.[11] Some consumers might also lose out on employer contributions and other benefits as a result. We found this behaviour was partly driven by a lack of trust in pensions, stemming from a range of factors including past pension scandals (where consumers tend not to distinguish between DB and DC) and frequent changes to pension rules and tax treatment.

Competition is not working well for some consumers

1.16 We also found weak competitive pressure and low levels of switching in the non-advised drawdown market, and looked at whether this might drive higher prices and less innovation. Comparing the behaviour of advised and non-advised consumers presents a starkly different picture. 94% of consumers who accessed their pots without taking advice accepted the drawdown option offered by their pension provider, compared to only 35% of advised consumers.[12]

1.17 Given this lack of competitive pressure, we are concerned that consumers might pay too much in charges. Our analysis found that charges for non-advised consumers vary considerably from 0.4% to 1.6% between providers, and are, on average[13], higher than in accumulation (where in some cases they are capped at 0.75%[14]).

7 See further details in Chapter 4 of the Final Report.

8 This includes direct holdings in cash and holdings in cash-like assets, such as money market funds or short-dated maturities.

9 We estimate that there are around 50,000 non-advised consumers wholly holding cash, with more than half at risk of losing out.

10 See details in Chapter 3 of the Final Report. We have assumed an asset mix of 50% equities, 20% government bonds, 20% corporate bonds, 7% property and 3% cash. For a consumer with a pot of £100,000 this would be an extra £1,500 per year.

11 Our consumer research found that many consumers (32%) put the majority of their money in an ISA, savings or current account. 20% invested the largest share in capital growth. See Chapter 4 of the Interim Report, and the consumer research commissioned by the FCA, Annex 4 of the Interim Report.

12 FCA analysis of ABI data, April 2015 – March 2017. Based on the analysis conducted for the Interim Report. See Figure 5 and Annex 2 of the Interim Report.

13 See further details in Chapter 4 of the Final Report.

14 The charge cap applies to certain DC workplace pensions schemes used by employers to meet their automatic enrolment duties.

1.18 By switching from a higher cost provider to a lower cost provider, consumers could increase their annual income by 13%.[15]

1.19 Drawdown charges can be complex, opaque and hard to compare. Products can have as many as 44 charges linked to them. This makes it difficult for consumers to compare products and shop around for the best products, which contributes to the limited competitive pressure on providers to offer good deals. Similarly, our review of non-advised drawdown pension sales, published in March 2018[16] found that some consumers struggle to fully engage with the information providers give them. This might make it harder for them to make good decisions.

1.20 So far, we have not seen significant product innovation for mass-market consumers. This too might result from weak competitive pressure, coupled with the fact that the market is still adjusting to the pension freedoms. However, we believe that incentives for innovating will increase over time as DC pot sizes grow. We want to give the market more time to develop before we consider the need to take further action on product innovation, but this will be a key focus for our ongoing work.

Who this applies to

1.21 This consultation will primarily be of interest to firms providing pensions, annuities and income drawdown.

1.22 Firms providing pensions will be interested in reading Chapter 4. Firms providing annuities will be interested in reading Chapter 5. Firms providing income drawdown will be interested in reading Chapters 3 and 6.

1.23 This consultation will also be of relevance to stakeholders with an interest in pensions and retirement issues, including:

- individuals and firms providing advice and information in this area
- distributors of financial products, in particular retirement income products
- asset management firms
- trade bodies representing financial services firms
- consumer representative groups
- charities and other organisations with a particular interest in the ageing population and financial services

1.24 Consumers will also be affected by this consultation. We welcome views from consumers on all of our proposals.

The wider context of this consultation

1.25 ROR, and this consultation, are part of a wider package of Financial Conduct Authority (FCA) activity covering the pensions and retirement income sectors. This includes

15 When consumers consider switching providers or products, they may assess a number of criteria, including fund performance, firm reputation, level of service, charges, etc. The 13% increase in income is due to the impact of charges only. It assumes that investments are identical, and that the consumer looked to fully drawdown their pot over 20 years. For an individual with a pot of £100,000 this would be an extra £650 a year.

16 www.fca.org.uk/publications/multi-firm-reviews/non-advised-drawdown-pension-sales-review-summary-findings

our work on a joint pension strategy with The Pensions Regulator (TPR), our on-going efforts to help consumers avoid investment and pension scams through ScamSmart, and work on DB pension transfers to assess the advice consumers are receiving from firms and whether they are at risk of harm. More information on the wider context can be found in Chapter 2.

What we want to change

1.26 In this Consultation Paper we are proposing a remedy package to address the potential consumer harm and emerging issues we have identified. Building on the potential remedies set out in the Interim Report, our remedy package aims to:

- protect consumers from poor outcomes (Chapter 3)
- improve consumer engagement with retirement income decisions (Chapters 4 and 5)
- promote competition by making the costs of drawdown clearer and comparisons easier (Chapter 6)

1.27 To aid understanding of how the remedies in this Consultation Paper will meet these aims, we have set out below brief descriptions of our key remedies and how they impact at different stages of the consumer journey. Details of further work we are undertaking to advance our aims is set out in the Final Report.

Before consumers access their pension savings – better communications, support and guidance

1.28 Before consumers access their pension savings, we want to improve the effectiveness of consumer communications and ensure consumers access the support or guidance they need.

'Wake-up' packs from age 50, with a single page summary document

1.29 We want the 'wake-up pack'[17] to reach consumers at the right time to inform their decision, and we want the pack to be useful. So we propose to require that 'wake-up' packs:

- Incorporate a single page summary document. Research suggests that this increases consumer engagement.[18]
- Are sent earlier in the process, from age 50[19], to improve consumer engagement.

1.30 It is important that consumers are aware of the key risks around accessing pension savings before they decide how they want to access their pension pot. We are consulting on rules that will require that all 'wake-up' packs include retirement risk warnings.

17 'Wake-up pack' refers to the Open Market Options statement, sent to consumers before they decide which retirement income product(s) to purchase.

18 Improving engagement with pension decisions: The results from three randomised controlled trials, a report prepared by the Behavioural Insights Team for HM Treasury and Pension Wise; October 2017; www.behaviouralinsights.co.uk/publications/improving-engagement-with-pension-decisions-the-results-from-three-randomised-controlled-trials/

19 Or earlier if a consumer asks for a retirement quote before age 50.

1.31 Consumers will receive a pack at age 50 and then every 5 years until they have fully crystallised their pension pot. This will provide additional trigger points for consumers to engage with their pension decisions.

Improving guidance for consumers

1.32 Consumers can look for support from a number of sources including a regulated adviser, their employer, their pension provider, or public sources including Pension Wise. The FCA's priority is to ensure that consumers get the support they need. For some this may come from regulated advice. For others, for example those with smaller pots, this may come from the information given by their provider or from free guidance from Pension Wise.

1.33 In our work on ROR, we considered whether consumers should be required to seek Pension Wise guidance before accessing their pension savings (or whether providers should be required to refer consumers to Pension Wise guidance).[20] As the Financial Guidance and Claims Act 2018 requires us to make rules in this area and to consult with the Single Financial Guidance Body (SFGB) before doing so, we will be taking this forward with the SFGB once it is formed. In the meantime, we will work with Government, to test various approaches in order to ensure that our rules support consumers effectively. Our aim will be to ensure consumers get consistent, high quality guidance. Further detail can be found in Chapter 4.

At the point of entering drawdown or buying an annuity – investment pathways

1.34 At the point consumers enter drawdown they need to achieve two things. First, they need to decide what they want to do with their pension pot and what kind of investment solution is appropriate for that. Second, they need to get a good deal on their drawdown solution.

1.35 Our evidence suggests that a more structured set of options would help consumers engage with their investment decision, consider their retirement objectives, and match their drawdown solution to these. So we think that providers should offer three ready-made drawdown investment solutions ('investment pathways') within a simple choice architecture. These investment pathways are intended to be broadly appropriate for consumers with fairly straightforward needs, reflecting standardised consumer objectives. In this paper we set out discussion questions on investment pathways.

1.36 We want drawdown options to be good value for money. Charges are only one factor in determining value for money, but they are a key component. In our Interim Report we discussed the possibility of introducing a charge cap for the investment pathways, an option also discussed by the Work and Pensions Committee.[21]

1.37 The option of capping charges remains open. Should we introduce pathways, we would expect firms to develop them with consumers' best interests in mind, including appropriate charge structures and levels. At this point, however, we do not know what the "right" price for such pathways is. Firms should challenge themselves on the level of charges and use 0.75% on default arrangements in accumulation as a point of reference. For this reason, we plan to begin a review of investment pathways, including the charges applied to them, one year after implementation. If at that point we find evidence that there are problems, it is highly likely that we will move towards imposing a cap.

20 Interim Report, paragraph 8.60
21 www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2017/pension-freedoms-17-19

1.38 We also believe there is a case for independent oversight of the appropriateness, quality and charges of investment pathways, and are exploring this now as part of this Consultation Paper.

1.39 To protect consumers from ending up in investments in drawdown that are unlikely to be appropriate for their retirement plans, we believe that new consumers accessing drawdown should have to make an active choice to be in cash. Some providers have already taken positive steps to review and change their practice in this respect. We also expect firms to have a strategy for dealing with consumers who have already been defaulted into cash, and who are unlikely to be best served by this strategy. We are also considering requiring firms to regularly communicate warnings to consumers who hold cash for significant periods.

1.40 To help consumers compare their drawdown solution we propose that firms provide a summary showing key information at the front of the Key Features Illustration (KFI) that consumers receive, including a one-year charge figure in pounds and pence which is comparable across KFIs.

1.41 Our package of remedies does not only affect those consumers opting for drawdown. At the point that a consumer is considering purchasing an annuity we also want to ensure that consumers are aware of their eligibility for an enhanced annuity. Following feedback to the Interim Report, we propose to require providers to ask consumers questions on health and lifestyle factors to assess their eligibility for an enhanced annuity. Providers will then present their quote alongside the highest quote available on the open market for an enhanced annuity, where eligible.

1.42 We will also require providers to provide information on the best quote available in the open market when consumers are seeking a specific annuity income ('income driven annuity quote').

Once a consumer has entered drawdown

1.43 Once a consumer has entered drawdown they still need information and support.

1.44 We believe that consumers in drawdown should receive information from their provider annually, whether or not they are currently drawing an income from their pot. Currently some do not and for many who do information on investment returns annual charges is not given.

1.45 Should we introduce them, we also believe consumers should be reminded annually of their chosen investment pathway and their ability to switch, to encourage the consumer to consider whether the investment pathway they are in is still appropriate for them.

1.46 We consult on most of these remedies in this Consultation Paper. However, for some we are only seeking feedback from stakeholders on their design at this stage, to ensure they are effective as possible. Details of the split are set out in paragraphs 1.48 and 1.49 below.

1.47 Our remedy proposals are summarised in the diagram below, which sets out the aims our remedies look to advance and how these remedies have an impact at different stages of the consumer journey:

Figure 1: Overview of remedy proposals coming out of the ROR

Current vs future consumer journey

Current issues	Before accessing pot	When consumer accesses pot	Consumer enters drawdown
• Low consumer engagement • Lack of shopping around • Poor investment choices	**Wake-up pack** **Reminder**	**Risk warnings** **KFI** provided when consumer enters new drawdown product	**Annual statement** when taking an income (no charges info)

Our remedy package

Protect consumers (Chapter 3)		**Investment pathways** **No cash default**	**Annual information to allow consumers to review their investment pathways decisions**
Improve engagement (Chapter 4 & 5)	**Wake-up pack comprising single page summary document** **Risk warnings** **Stronger reminder**	**Wake-up pack including single page summary document** **Risk warnings** **MAS factsheet** **Every five years until pot is fully crystallised** **Annuity information prompt** including for income driven quotes & enhanced annuities	
Promote competition (Chapter 6)		**KFI** provided to consumers entering drawdown or taking UFPLS through new or existing product, including summary document (with clearer charges info)	**Annual statement to all consumers** (including actual charges info) Further **KFI** provided where consumer starts taking income at later date

Key: KFI - Key Features Illustration
UFPLS - Uncrystallised Funds Pension Lump Sum

Summary of Remedies

1.48 In this Consultation Paper we are consulting on the following changes to our rules:

- amending the information that firms must give in the open market options statement (often referred to as the 'wake-up' pack) and the frequency of its delivery, including preventing marketing material from being included, to make it more impactful (Chapter 4)

- amending the requirements for the reminder that firms send consumers after receipt of the 'wake-up' pack to improve uptake of pensions guidance (ie Government-provided free and impartial guidance about pension options) (Chapter 4)

- requiring firms to provide retirement risk warnings alongside the 'wake-up' pack to help engage consumers with the risks associated with their options and, as a consequence, increase their impact (Chapter 4)
- improving the effectiveness of the information prompt for consumers potentially eligible to purchase enhanced annuities, enabling more consumers to secure a potentially higher income from their annuity (Chapter 5)
- amending our rules to make sure that the annuity information prompt works for consumers requesting income-driven annuity quotes (not just purchase-price driven quotes) (Chapter 5)
- amending the information consumers receive on entering drawdown to ensure the prominence of charges information and consistency in calculation of illustrations (Chapter 6)
- requiring firms to provide consumers with a one-year single drawdown charge figure pre-contractually (Chapter 6)
- requiring firms to provide charges information to consumers in circumstances where they have moved into drawdown in their existing pension scheme (Chapter 6)
- amending our rules on the ongoing, annual information a firm must provide to a consumer taking income in drawdown, including to make sure that it is also provided to consumers who have entered drawdown but not taken any income (Chapter 6)

1.49 In addition, in this Consultation Paper we are seeking feedback from stakeholders – but not consulting on rule changes at this time – on:

- requiring firms offering drawdown to non-advised consumers to provide a range of investment pathways to help consumers choose investment solutions that meet their needs and objectives in drawdown (Chapter 3)
- preventing firms from 'defaulting' consumers into cash or cash-like assets, to make sure that if a consumer is invested in cash in drawdown they have made an active choice to do so (Chapter 3)
- requiring firms to disclose actual charges paid by consumers in drawdown on an annual basis (Chapter 6)

1.50 A key reason we are not consulting on rule changes to bring these remedies into effect at this time because we need to seek further evidence to work out how they can be applied to self-invested personal pensions (SIPPs). As set out in Chapter 3, we are seeking stakeholder feedback on the challenges associated with applying these remedies to SIPPs, and how they might be overcome. To allow prompt implementation of these important remedies, we are setting a 6 week deadline for receiving this feedback, and will be collecting data from SIPPs over the summer.

Outcomes we are seeking

1.51 As set out in our Business Plan for 2018/19[22], in recent years our regulation of the pensions and retirement income market has focused on making adjustments to our rules to support the pension freedoms. Our remedy proposals in this Consultation Paper are part of that work. Our proposals aim to protect consumers from poor outcomes, increase consumer engagement with pension decisions and promote competition.

1.52 In Chapter 2 we explain how our proposed interventions will deliver the outcomes we are seeking by addressing the potential harms.

Implementation timetable

1.53 The pensions and retirement income market is an important priority for the FCA. The market is still evolving, and it will be some years before most people are primarily reliant on a DC pot for their retirement income. We have identified harms and emerging issues that we are keen to address promptly, so the market is on a good footing for the future. This is why, for instance, we are asking for responses to the discussion questions within 6 weeks. As set out in the timetable below, we plan to publish final rules for all the remedies in this paper by July next year. As is our normal practice, we will then allow firms an implementation period for the rule changes.

Action	Subject	Planned Date
Collection of data from SIPPs	Investment Pathways and cash defaults	July & August 2018
Deadline for comments on discussion questions (6 week discussion period)	Investment pathways, cash defaults and actual charges information	9 August 2018
Deadline for responses to consultation questions (10 week consultation period)	All other remedies	6 September 2018
Cleaning and analysis of SIPP data collection	Investment Pathways and cash defaults	September & October
Potential consumer testing of aspects of investment pathways	Investment pathways	Complete by November 2018
Publication of feedback on discussion questions and second Consultation Paper	Investment pathways, cash defaults and actual charges information	January 2019
Publication of feedback on consultation questions in this Paper and first Policy Statement	All other remedies	January 2019
Deadline for responses to second Consultation Paper (2 month consultation period)	Investment pathways, cash defaults and actual charges information	March 2019
Publication of feedback on second Consultation Paper and Policy Statement	Investment pathways, cash defaults and actual charges information	July 2019

22 www.fca.org.uk/publication/business-plans/business-plan-2018-19.pdf

Measuring success

1.54 As part of Our Mission[23], we explained the importance of evaluating our significant interventions. We also set out a framework for measuring the value we add through our activities. This includes measuring our own operational efficiency, the impact of our interventions and outcomes in markets.

1.55 We have recently published a Discussion Paper (DP18/3)[24] which sets out how we intend to use post intervention impact evaluation to assess the impact our interventions have had on consumers, firms and markets. Following feedback, we will consider when and how best to measure the impact of our interventions to ensure value for money and proportionality. Where it is less cost-effective to conduct detailed analysis, we will monitor key market indicators that help show the impact of our interventions.

1.56 Our Sector Views[25] present a high-level overview of how the market is evolving and we will use the pensions and retirement income sector view to help prioritise our future areas of focus in the market.

1.57 Our proposed remedy to introduce investment pathways will be a significant intervention into the drawdown market. If we decide to implement it following consultation, we also plan to begin a more detailed review of the impact of these pathways one year after they are implemented. This will enable us to examine, among other factors, the charges providers are applying to the pathways, so that we can ensure they offer value for money.

Next steps

What you need to do

1.58 We want to know what you think of our proposals for consultation and discussion in this Consultation Paper. Please send us your comments on our proposals for discussion (questions 1-33 and 47-49) by 9 August 2018. Please send us your comments on our proposals for consultation (questions 34-46) by 6 September 2018.

How to send us your response

1.59 Use the online form on our website, email us at cp18-17@fca.org.uk, or write to us at the address on page 2.

What we will do next

1.60 For the proposals we have raised for discussion in this Consultation Paper but are not proposing to make rules on now, we will consider your feedback – and whether we need to refine the proposals we have put forward in this Consultation Paper – and will consult in January 2019.

1.61 For the proposals we are consulting on in this Consultation Paper, we will consider your feedback and publish our finalised Handbook text in a Policy Statement in January 2019.

23 www.fca.org.uk/publications/corporate-documents/our-mission
24 www.fca.org.uk/publications/discussion-papers/dp18-3-ex-post-impact-evaluation-framework
25 www.fca.org.uk/publications/corporate-documents/sector-views

2 The wider context

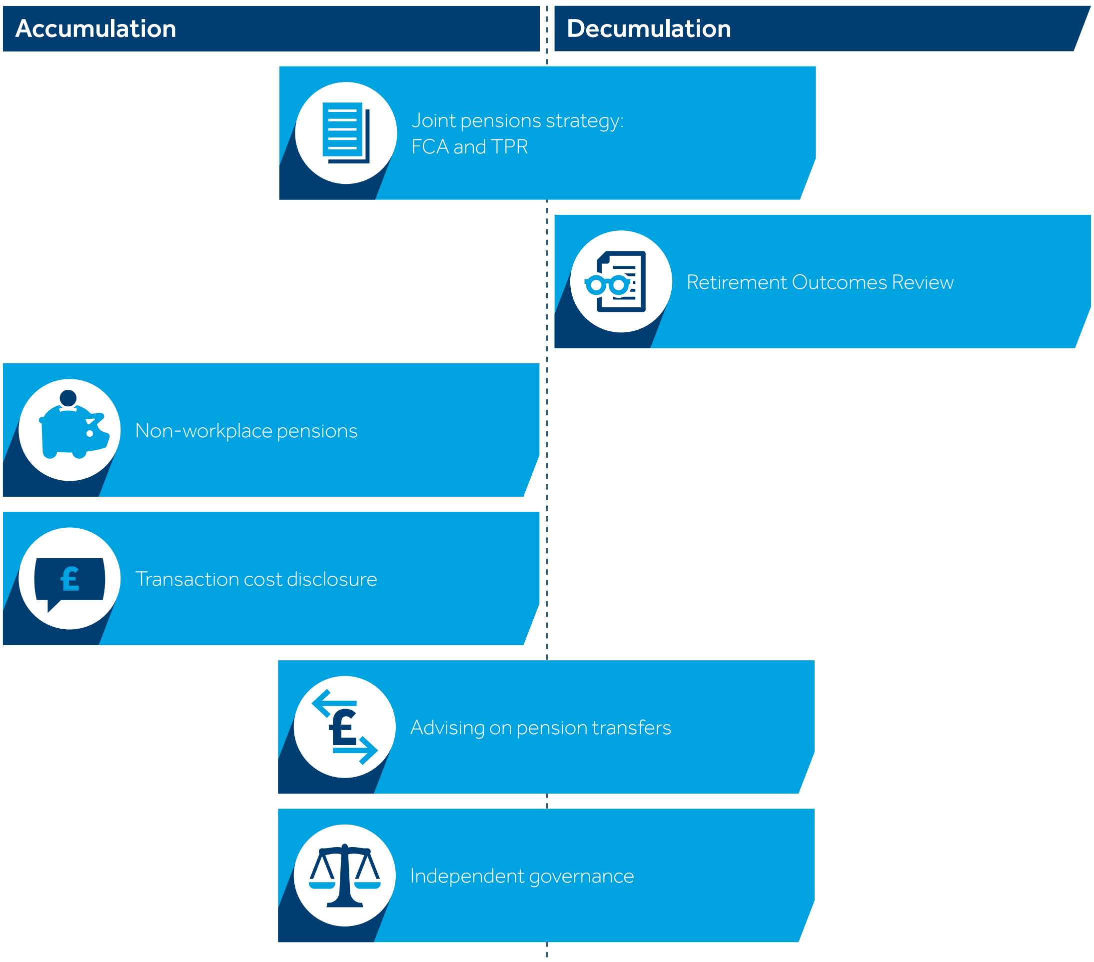
How this consultation sits alongside other work in the pensions and retirement income market

2.1 The pensions and retirement income market continues to be a priority for us, as noted in our Business Plan for 2018/19. We are currently working with TPR on a pensions regulatory strategy, as referred to below.

2.2 There continues to be considerable stakeholder interest in this area. For example, the Work and Pensions Committee provided various recommendations for Government and the FCA in their Ninth Report of Session 2017-19 on pension freedoms, published in April.[26] We have taken account of these and have referred to the recommendations relevant to the ROR within this Consultation Paper (CP).

2.3 Our work on the ROR is only one part of our work programme in this area. We are also undertaking the following work in relation to pensions.

Figure 2: Our main ongoing and future work in the pensions and retirement income sector



26 https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/917/91702.htm

- We are working with TPR on a pensions regulatory strategy, which will set out how we will work together to tackle the key risks facing the pensions sector in the next 5-10 years. We published a call for input in March and will publish our joint strategy later this year.

- We have seen increased demand for transfers from DB to DC schemes, in part as a result of pension freedoms. We have found high levels of unsuitable advice in this area.[27] We have made rules[28] on measures to protect consumers, and we recently consulted on a further package of interventions to further improve the quality of pension transfer advice. We also sought views on contingent charging structures for pension transfer advice. We will publish the outcome of our consultation and our final rules on the areas consulted on and next steps on contingent charging structures in early autumn. We also have a continued supervisory focus in this area and are collecting and analysing data from all firms active in this market.

- Our work on non-workplace pensions (NWP) is exploring whether competition is operating in the interests of consumers in that market. In February 2018, we published our discussion paper which seeks views, among other matters, on the merits of enhancing oversight arrangements for NWP.[29] Towards the end of the year, we aim to publish a further paper which will provide feedback on the themes arising from the responses to the Discussion Paper and our forthcoming industry data collection.

- Clear and prominent disclosure of costs and charges is important for transparency, confidence and competition in the market. In addition to the work we are doing in the ROR, later this year we will consult on rules to require that consumers in workplace personal pension schemes are provided with details of the transaction costs they pay within their scheme.

- Good governance of pension products is vital. For workplace personal pensions, we already require schemes to have Independent Governance Committees (IGCs). IGCs must act solely on behalf of scheme members in challenging providers on the value for money of their schemes. We are considering the merits of extending the remit of IGCs to other areas. We are also taking forward measures to improve governance and transparency for social investment and environmental, social and governance (ESG) risks. These measures include requiring IGCs to report on their firm's policies on how they evaluate investment risks, including ESG risks, on how they take account of member concerns, and on stewardship. We intend to consult on a package of rule changes for IGCs in Q1 2019.

- We are concerned about the growth of pension scams. The pension freedoms have made pension savers an attractive target for scammers, and the consequences for victims can be devastating. We have done a lot of work on pension scams, but there is more work to do. We are looking at how we can build on the success of our ScamSmart campaign and we are working with TPR on developing a bespoke and targeted pension scams campaign.

- The above list is not exhaustive. Across the FCA we are undertaking additional work that affects the pensions and retirement income sector (for example, the

27 www.fca.org.uk/news/news-stories/our-work-defined-benefit-pension-transfers
28 www.fca.org.uk/publications/policy-statements/ps18-6-advising-pension-transfers
29 www.fca.org.uk/publication/discussion/dp18-01.pdf

Investment Platforms Market Study, and remedies stemming from the Asset Management Market Study).

2.4 Much of the wider policy work we are undertaking relates directly to the work we are undertaking on the ROR. For example, in Chapter 3 of this CP we consider whether we should require firms to offer investment pathways to consumers moving into drawdown. We ask for views on extending IGC oversight to the decumulation phase, including investment pathways. Our work on the ROR recognises that drawdown is often provided through non-workplace arrangements. So any changes we decide to make in this area as a consequence of our NWP work – should there be any – would need to take into account the proposals set out in this CP.

2.5 The ROR also has more indirect links to other work we are undertaking. For example, the increase in transfers from DB to DC pension schemes means that more consumers need to consider decumulation options for their pension pots, which are often significant in size.[30] Clearly this increases the reach of the potential remedies we are proposing in this CP.

The harm we are trying to reduce/prevent

2.6 As a consequence of some of the findings of our review, described in Chapter 1, we believe that consumers could suffer different harms which would lead to them having lower income in retirement. In Our Mission we described how we make regulatory decisions. This includes setting out the types of consumer harm we have found throughout the financial services sector.[31] In line with this framework, we believe the potential harms are:

- Purchase of unsuitable products
  - Consumers could lose out on potential investment growth (for example, if invested in cash for extended periods, or if investing in assets that do not match their needs and objectives)
- Prices too high or quality too low
  - Consumers could pay too much in fees and charges
  - Consumers may not benefit from better products and deals, due to low competitive pressure
- Important consumer needs are not met
  - Consumers could pay too much tax (for example, if consumers withdraw their pots in a way that is not tax efficient)

2.7 We believe that regulatory intervention is needed to address these potential harms.

30 The Pensions Regulator TPR estimates that there were 100,000 transfers out of DB schemes in 2017/18 (www.thepensionsregulator.gov.uk/foi/number-of-transfers-out-of-db-schemes-in-2017-18.aspx). In CP18/7 we estimated that the average value of benefits transferred was £250,000 (www.fca.org.uk/publication/consultation/cp18-07.pdf at page 30).

31 www.fca.org.uk/publication/corporate/our-mission-2017.pdf (page 12)

How it links to our objectives

2.8 One of our operational objectives is to ensure an appropriate degree of protection for consumers. Our proposed remedies set out in Chapter 3 are intended to protect consumers from poor outcomes. Our proposed remedies set out in Chapters 4 and 5 are intended to enable more effective consumer engagement with retirement income decisions, to support consumers to make good decisions.

2.9 Another of our operational objectives is to promote competition in the interests of consumers. Our proposed remedies, set out in Chapter 6, look to promote competition by making the cost of drawdown products clearer and comparison easier. Further, our other proposals to improve the information given to consumers – set out in Chapters 4 and 5 – look to promote competition by prompting consumers to consider the alternative to taking the path of least resistance.

Wider effects of this consultation

2.10 As set out in paragraph 1.26, our proposals aim to protect consumers from poor outcomes, improve consumer engagement with pension decisions and promote competition. However, we recognise that the pensions and retirement income market has continued to evolve since the pension freedoms came into force in April 2015. We believe that our proposed remedy package strikes an appropriate balance by addressing potential harms in a proportionate manner, while allowing the market to continue to develop and innovate.

What we are doing

2.11 As set out in the Final Report, since publication of the Interim Report we have undertaken further work to assess the potential harms in the non-advised drawdown market and inform our potential remedies.

- We have undertaken analysis of the investment choices of advised and non-advised drawdown consumers. The firms selected for this sample accounted for around two thirds of the total non-advised drawdown market.
- For the same sample of firms, we have undertaken analysis of charges paid by both advised and non-advised consumers and surveyed consumers to understand the level of their engagement in their investment decisions for drawdown.
- We have analysed written submissions from over 50 respondents to the Interim Report.
- We have met with a range of stakeholders – including providers of drawdown to non-advised consumers – to understand how the market has developed.

2.12 We are now proposing a package of remedies:

- Chapter 3 sets out our possible remedies to protect consumers from poor outcomes. We are considering whether to stop firms from moving consumers entering drawdown wholly or predominantly into cash or cash-like assets unless the consumer has made an active choice to do so. We may also require that firms offer investment pathways for non-advised drawdown consumers. These remedies are for discussion. We are not consulting on rule changes at this stage for the reasons set out in paragraph 3.4.

- Chapters 4 and 5 set out our remedy proposals to support consumer engagement with retirement income decisions. We are consulting on these proposals:
  - Chapter 4 sets out our proposals to amend the information firms must provide in 'wake-up' packs and the frequency of their delivery, to increase their impact. We will also require that firms provide retirement risk warnings alongside 'wake-up' packs to make consumers aware of the risks associated with their options and, as a consequence, increase their impact. We also propose to amend the reminder document that consumers receive, to improve the uptake of pensions guidance.
  - Chapter 5 sets out our proposed changes to our rules on the annuity information prompt.
- Chapter 6 sets out our remedy proposals to make the cost of drawdown products clearer and more comparable. We are consulting on a number of interventions in this area, including changes to the information given to drawdown consumers and other communications. We are also raising, for discussion, a possible remedy to require firms to provide actual charge information to consumers on an annual basis. We are not consulting on that remedy at this stage for the reasons set out in paragraph 3.4.

Equality and diversity considerations

2.13 We have considered the equality and diversity issues that may arise from the proposals in this CP.

2.14 Overall, we do not believe that most of the proposals will materially impact any of the groups with protected characteristics under the Equality Act 2010. However, we expect that our proposals for the annuity information (set out in chapter 5) will benefit those consumers with health issues who have a lower life expectancy. We will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules.

2.15 In the meantime we welcome your input to this consultation on this.

3 Protecting consumers from poor outcomes

Introduction

3.1 In our Final Report we found that many consumers struggled to make investment decisions, or were insufficiently engaged to do so. This was leading to consumers either ending up in their drawdown provider's default option or making a poor investment choice because their drawdown provider didn't provide a solution that was easy to understand or navigate.

3.2 This chapter sets out a range of proposals for discussion. It puts forward potential remedies to protect consumers who have not taken advice (non-advised consumers) from poor outcomes in drawdown, including consumers losing out on potential investment growth and potentially paying too much in fees and charges.

3.3 We are inviting views on whether we should:

- Require firms to offer investment pathways to non-advised consumers
- Prevent firms from 'defaulting' consumers into cash or cash-like assets, to make sure that if a consumer is invested in cash in drawdown they have made an active choice to do so

3.4 We are not proposing to make or amend rules at this stage because:

- We recognise that these remedies represent material interventions in an evolving market that has developed significantly since the introduction of pension freedoms. So, we believe it is important that stakeholders are given the opportunity to comment on the impact and practicality of these prior to any decision to consult.
- We want to gather more evidence on how the remedies in this area would apply to the whole of the drawdown market, in particular, SIPPs. However, preventing poor outcomes in the pensions and retirement income market is an important priority, so we will need to gather this evidence promptly to implement these remedies.

3.5 We invite stakeholders to respond to the questions in this chapter (Questions 1-33) by **9 August**. If we take these proposals forward, we plan to consult on proposed rules in January 2019.

Our findings

3.6 Our findings on the consumer investment choice and engagement data are set out in Chapter 3 of the Final Report, and our analysis of charges in drawdown in Chapter 4 of the Final Report. To summarise the key findings:

- A significant number of consumers not taking advice are likely to be holding their drawdown funds in investments that will not meet their needs. In particular:
  - Most consumers go into drawdown in order to access their tax free cash. 28% of all consumers were not sure where they were invested and 34% only had a broad idea. We found evidence that some consumers who thought they knew where they had invested were mistaken, and that some consumers did not know they were entirely holding cash.
  - In general, SIPP customers appear to be more engaged with their investment decision. 77% of them said they know exactly where their money was invested, compared to 29% of life insurance firm (ie non-SIPP) customers.
  - The least engaged group of consumers tended to be younger (aged 55-64), have a lower pot size, lower income, less pension knowledge and no DB pension pots.
  - 33% of consumers that do not take advice hold their whole drawdown pot in cash accounts or exclusively in 'cash-like' funds. We consider that over half of these are likely to be better served by an alternative strategy.
  - There is a significant cumulative impact on retirement income of holding an entire pot in cash for a long period of time due to the missing out on investment growth. Consumers holding all of their pots in cash could increase their annual income by over a third if they invested instead in a mix of assets, including equities, over a 20 year period.
- How options are presented (also known as the 'choice architecture') as a consumer enters drawdown has a significant influence on investment outcomes for the consumer. This is consistent with evidence presented in the Retirement Income Market Study that choice architecture has a very significant impact on choices and outcomes.[32]
- Firms with choice architectures that offer consumers more structure appear to help consumers end up in more appropriate asset mixes compared to less structured approaches. While this may not only be due to the choice architecture, we found fewer consumers holding cash when this is unlikely to be in their interest. We also found what appears to be a better fit of asset allocations when a more structured approach was offered to consumers.
- While charges are not the only important factor for consumers to consider when choosing a drawdown provider, they can have a significant impact on the value of a pot over time. We investigated the range of drawdown charges (administration and fund charges) offered to non-advised consumers. On balance, our analysis showed that:
  - Total charges vary substantially across providers with average total charges range from 0.4% to 1.6%. By switching from a higher cost provider to a lower cost provider, consumers could increase the annual income from their pot by 13%. For an individual with a pot of £100,000 this would be an extra £650 per year.

32 www.fca.org.uk/publication/research/rims-framing-experiment.pdf

- Nearly a quarter of consumers who did not take advice are paying 1.5% or more of their pots in charges every year.
- Consumers holding cash face administration charges with some providers but not with others.

- Drawdown charges are complex and appear hard for non-advised consumers to compare across providers. Our survey found that around half of non-advised consumers do not even consider switching, and those who did consider switching mostly do not.
- We found no clear evidence of price discrimination in the non-advised drawdown market.

Potential remedy for discussion: Investment pathways

Background

3.7 In the Interim Report, we expressed concern about the complex decisions consumers have to make to get the most out of their drawdown pot. This could lead to non-advised consumers making poor choices.[33]

3.8 We explained that a 'poor choice' for a consumer could be choosing an investment strategy that is unsuitable for their needs, including their risk tolerance and what they intend to do with their pot in the future. As a result of choosing an unsuitable investment strategy, consumers may take on excessive levels of investment risk or – conversely – miss out on investment growth if they have invested in overly-cautious assets.[34]

3.9 In the Interim Report, we said that an option to address the potential harm was to require that firms provide 'default investment pathways'.[35] The basic proposition was that once a consumer decides to purchase a drawdown product, or they are moved into drawdown to access their tax-free cash, providers could be required to offer them default investment pathways based on retirement outcomes chosen by the consumer. A default investment pathway would have a high-level objective and set out the strategy it will use to achieve it.

3.10 We suggested that firms would be required to offer at least one default investment pathway, but that, faced with different groups of consumers with different needs, firms might decide to offer more than one default investment pathway.[36]

3.11 In the Interim Report, we said that before we could decide whether an intervention was appropriate, we needed to gather further evidence on consumer investment choices and the options presented by providers.[37] We also asked for feedback on this proposal, and indeed on the Interim Report as a whole, and initiated a range of stakeholder discussions.

33 Interim Report, paragraph 8.18
34 Interim Report, paragraph 8.19
35 Interim Report, paragraph 8.24
36 Interim Report, paragraphs 8.27 – 8.28 (inclusive)
37 Interim Report, paragraph 8.22

3.12 The key final findings from the further evidence we gathered are summarised in paragraph 3.6 above.

3.13 Having carefully considered all the evidence and stakeholder feedback we have gathered since publication of the Interim Report, we believe that offering non-advised drawdown consumers a simple range of investment solutions – with carefully designed choice architecture – is the best way to help them select investments that broadly meet their objectives for their pot in drawdown.

3.14 We have described these solutions as 'investment pathways'. Our intention is to prompt active choice between a small number of simple options. We are no longer using the term 'default,' as we did in the Interim Report, since stakeholder feedback suggests that it is confusing in this context.

3.15 Our current thinking on how these might work in practice is set out below.

Summary: Key elements of our potential remedy
The key elements of our proposal to introduce investment pathways are:

- Our evidence has shown that – through following the path of least resistance – many consumers are making apparently poor choices about how to invest their drawdown pot. This intervention aims to use a key point of engagement in the consumer journey – the consumer's wish to take their 25% tax-free cash – to help them to make a sound choice about what to do with the remaining 75% with minimal engagement.
- An investment pathway is a ready-made investment solution – for example, a multi-asset fund – that a firm believes meets a broad objective. These broad objectives will correspond to the different ways a consumer might wish to use their drawdown pot. We are minded to prescribe these broad objectives.
- Investment pathways are intended to serve as a mass-market offering. They are intended to be broadly appropriate for consumers with fairly straightforward needs. They are not intended to offer an optimal solution for consumers in every circumstance. We recognise that many non-advised consumers will want to take a more bespoke approach. For those consumers, firms may offer investment solutions outside of the scope of these objectives. These investment solutions are not described as investment pathways in this CP.
- While we don't currently propose to be prescriptive around the investment solutions the investment pathways will comprise, each investment pathway should have a description and a risk profile. Both must be communicated to the consumer clearly and prominently. Further, the name of the investment pathway should reflect its objective.
- We are considering whether to introduce prescriptive requirements around the choice architecture used to enable consumers' selection of investments in drawdown, including investment pathways. We believe that the choice architecture is key to making sure that consumers are directed to the right investment pathway for them. A flow-chart showing how the choice architecture might work is set out in Annex 1.

3.16 These key elements are considered in greater detail below.

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

Prescribed objectives

3.17 We propose to consult on rules requiring firms to offer investment pathways reflecting broad prescribed objectives to non-advised consumers. The objectives should broadly capture the different ways a consumer might wish to use their drawdown pot. We are considering the following objectives:

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

3.18 The objective-based approach we are considering is intended to make it easy for consumers to choose an investment solution, as it ultimately requires them to reflect on and answer a single question; how do I want to use my drawdown pot? The benefit of this approach is that it is easy to understand and aims to make choosing investments a quick, simple process for most consumers.

3.19 We recognise that the investment pathways we propose could capture consumers with quite different circumstances and needs. It follows that the ready-made investment solutions a firm provides may not provide optimal outcomes for all consumers. However, we believe that providing a larger number of more bespoke alternatives at this stage could have the effect of disengaging consumers with their investment decision.

3.20 That said, we are keen to hear your views on these objectives. While we want to limit the number of objectives, we recognise that three may not be enough, particularly to deal with longevity risk. For example, additional objectives could be:

- I want to take my money out flexibly during retirement
- I want a guaranteed income for the rest of my life (ie annuity)

3.21 We think firms should only offer 1 investment solution for each of the objectives. Requiring consumers to make a further choice between possible investment solutions would make the process more complex and potentially less engaging. Firms should consider how to optimise a single solution for the consumers entering a particular investment pathway, for example, a lifestyle-switching strategy.

> **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?**

Q3: Do you agree with our suggestion that firms should only offer 1 investment solution in respect of each of the objectives? If not, what would you suggest?

3.22 Finally, we do not believe that it will be appropriate for the same investment solution to be used for all of the investment pathways. For example, the investment solution offered to a consumer who wishes to take their money out quickly would need to have a different approach to risk and reward to one for consumers who want to leave their pot untouched for the foreseeable future (eg for their dependents to inherit). However, there may be similarities between the attitude to risk and reward in the investment pathways for consumers wanting an income in retirement and those wishing to keep the drawdown pot invested indefinitely. So, we are considering allowing firms to offer the same investment solution for some investment pathways.

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?

Number of investment pathways offered by a firm

3.23 The evidence we have gathered on the investment solutions currently offered by firms to non-advised drawdown consumers shows that there is a wide variation. A number of large firms appear to have chosen to offer a single investment solution for their non-advised consumers in drawdown. We recognise that a requirement for every firm to offer investment solutions for all 3 investment pathways might have the unintended consequence of reducing the number of providers in the market.

3.24 Our current thinking is that firms would be permitted to offer investment solutions for all of the investment pathways. But we are also minded to allow firms to offer only 1 or 2 investment solutions for investment pathways provided they present all 3 investment pathways to the consumer and refer them directly to another provider where they do not themselves provide an investment solution for a particular investment pathway, as set out in paragraph 3.31 below.

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?

No prescribed investment solution or risk profile

3.25 We recognise that currently some of the large firms in this market have a diverse range of offerings for non-advised consumers in drawdown. While, as set out above, we are considering whether any proposal should prescribe the objectives for the investment pathways, we want to give firms freedom to design the corresponding investment solutions. This is because we recognise that firms know their consumers better than we do. We also recognise that this market continues to evolve, and we do not want to introduce measures that stifle innovation.

3.26 So, our current thinking is that we will not prescribe the investment solution or risk profile to be adopted for each of the investment pathways.

3.27 Further, if a firm thinks it appropriate having considered their target market, the firm can use a pre-existing investment solution to offer an investment pathway.

> **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?**

Firms' other offerings

3.28 Some firms might want to offer consumers access to investment solutions other than the investment pathways. Some non-advised consumers will want to choose a bespoke asset allocation to meet their individual needs and objectives for their drawdown pot. Further, there are circumstances where firms will have to offer consumers access to investment solutions other than the investment pathways. For example, where there is a fall-back provision in the relevant contract or scheme rules in the event that the consumer does not make an investment choice.

3.29 We do not propose to prevent firms from offering other investment solutions for non-advised consumers, or require firms to interfere with consumers' existing rights in their scheme.

> **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?**

Consumer selection of an investment pathway: Choice architecture

3.30 If we were to introduce investment pathways, the choice architecture will be key to making sure that consumers choose the investment pathway that best meets their objectives. Firms should not use choice architecture to discourage consumers from selecting an investment pathway; for example, to steer consumers away from the investment pathways (eg towards their other offerings) where this is not appropriate for the consumer. At the same time, consumers who do not need the same level of support need to be able to access the bespoke products and solutions they want without having to go through unnecessary hurdles.

3.31 To achieve this balance, we welcome views on introducing a simple form of choice architecture to help consumers to choose an investment pathway. This is described below.[38] The consumer journey we envisage, and how the choice architecture for investment pathways fits within it, is also set out in a flow chart in Annex 1.

- At the outset, if it is not already clear to the firm, the firm must ask whether the consumer is making their investment decision with the help of an adviser. If they are, the consumer does not need to be taken through the next stages – but should be informed that investment pathways are available, and given the opportunity to view them.

38 The Insurance Distribution Directive (IDD) will apply to sales of insurance-backed decumulation products and these requirements will be designed to be consistent with IDD where applicable.

- The consumer will then be given 3 options (firms can offer this help online or over the phone/face-to-face). We may test consumer understanding of these options:

  1. Do you want to make your own investment choice?

     - If the consumer indicates they want to make their own investment choice (or invest in cash), the firms' other investment offerings (including cash) will be presented to the consumer. But the consumer must be given the opportunity to view the investment pathways before they finalise their investment choice. If the consumer finalises their investment choice, the selection process ends.

     OR

  2. Do you need some help to make your investment choice?

     - If the consumer indicates that they require more information to help them choose how to invest their drawdown pot, the firm will introduce the investment pathways to them. The consumer then enters the choice architecture for the investment pathways.

     OR

  3. (If applicable) Do you want to remain in your current asset allocation?

     - If the consumer indicates that they want to remain in their current asset allocation (should this option be available to the consumer) the process will end. But the consumer must be given the opportunity to view the investment pathways before they finalise their investment choice.

- Choice architecture for investment pathways:

  - Where a firm offers investment solutions for all 3 investment pathways, the firm must present them to the consumer. They should be presented with equal prominence and each should show the objective of the investment pathway, and the risk profile the firm gives to each. If a firm does not offer investment solutions for all 3 investment pathways, the firm must show the investment pathways for which they do not offer investment solutions with equal prominence to the ones where they do – with a clear statement explaining that they do not offer investment solutions for particular investment pathways but that [x] firm does provide it (and provide a direct link to that firm's investment pathway).

  - If the consumer chooses an investment pathway the process ends.

  - However, if the consumer indicates that they are unable or unwilling to choose an investment pathway from the list provided, the firm should offer more information to help the consumer decide how to invest their drawdown pot. This might include pointing the consumer in the direction of their website (with a simple filtering process to help the consumer select an investment pathway) or offering more information about the investment pathways and how to select one based on the consumer's objectives.

  - If the consumer selects an investment pathway that the firm offers, the process ends.

- If the consumer indicates that they are still unable or unwilling to choose an investment pathway, they should be directed to any other investment options that the firm has (if relevant).

- We propose that firms may offer a 'backstop' investment solution at the end of the choice architecture in the event that a consumer fails to choose an investment pathway or other investment solution a firm offers. As explored later in this chapter, we also propose to make rules providing that consumers cannot be invested wholly or predominantly in cash unless they make an active choice to do so. This would mean that the backstop option could not be cash.

3.32 We believe that firms will be able to provide the choice architecture described without giving a personal recommendation. Guidance to help firms to decide whether a service might amount to a personal recommendation is set out in the Perimeter Guidance Manual within the Handbook.[39] We would expect firms to refer to the Perimeter Guidance Manual when designing individual elements of the choice architecture.[40]

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?

3.33 We recognise that all of the options available to us involve some risk of gaming by firms. We believe, though, that our proposed prescription of a clear, simple approach for firms to take to enable selection of investments will minimise the risk of gaming.

Advised consumers

3.34 The main purpose of our proposed rules is for firms providing drawdown to non-advised consumers. However, we recognise that firms may want to make their investment pathways available to consumers making investment choices with the assistance of a regulated adviser. This is because there may be circumstances where an adviser concludes that an investment pathway is the most suitable option they can identify for their client.

3.35 We intend to provide clarity on what we consider to be an advised consumer for the purposes of the application of our proposals. For investment pathways, we consider that a consumer is an advised consumer only if they are taking advice from an adviser on the investment decision they are making at that point, about how to invest their pot in drawdown. So if, for example, the consumer was advised during the accumulation phase on their investments but not when they entered drawdown, they will be considered non-advised.

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?

39 www.fca.org.uk/publication/policy/ps18-03.pdf
40 See PS18/3 – 'Our Response' at i. and ii. under 'General issues' (p.9)

Staged drawdown

3.36 Some non-advised consumers may want to put their pension savings into drawdown in stages. We believe that these consumers should be required to engage with the investment selection process each time a decision is made to put funds into drawdown, including investment pathways. This is because the consumer may have different objectives for different tranches of their drawdown pot.

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?

Annual review of investment pathways by firms

3.37 Firms are aware of their broader responsibilities, which are outlined in The Responsibilities of Providers and Distributors for the Fair Treatment of Customers (the RPPD),[41] to periodically review their products post-sale. The requirements in paragraph 1.21 (2) of the RPPD is of particular relevance to providers of investment pathways. This says that firms should periodically review products whose performance may vary materially to check whether the product is continuing to meet the general needs of the target audience that it was designed for, or whether the product's performance will be significantly different from what the provider originally expected and communicated to the consumer at the time of the sale.

3.38 Building on the guidance in the RPPD, our current thinking is that we should make rules requiring firms to review their investment pathways on an annual basis. This is to make sure that the underlying investment solution continues to deliver against the objective of the investment pathway. If they do not meet their stated objective, firms should reconsider the relevant components of the investment solution.

Q13: Do you agree with the approach we are considering taking to require firm review of investment pathways on an annual basis? If not, what would you suggest?

Ongoing information to consumers

3.39 Where a consumer is in drawdown, there are existing requirements in our Handbook to make sure that they receive statements on an annual basis from their provider.[42] We are consulting on making minor amendments to these provisions, in Chapter 6 of this CP, largely to reflect developments in the retirement income market since the introduction of pension freedoms.

3.40 We believe it may be necessary to introduce specific additional requirements setting out what information firms should give to consumers in investment pathways on an annual basis. This additional disclosure could contain a reminder of the consumer's chosen investment pathway and their ability to switch investment pathways and/or products (they could remain in drawdown but choose a different asset allocation, they could purchase an annuity, etc.). This will be particularly relevant if the consumer's objective for their pot in drawdown has changed. A key aim of the annual disclosure will be to get the consumer to consider whether the investment pathway they are in is still appropriate for them.

41 www.handbook.fca.org.uk/handbook/document/rppd/RPPD_Full_20180103.pdf
42 In COBS 16.6.8R and 16.6.9G

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?

Charges

3.41 We want to make sure that the investment pathways offer value for money. Charges are only one factor in determining value for money, but they are a key component.

3.42 As set out previously in this CP and in greater length in Chapter 4 of the Final Report, the charges data we have collected gives us some cause for concern about the level of charges being paid by consumers in drawdown. Specifically, we are concerned by the significant difference in charges paid by consumers across the firms in our sample, suggesting some consumers may be paying too much.

3.43 In the Interim Report we discussed the possibility of introducing a charge cap for the investment pathways. The Work and Pensions Committee subsequently recommended a charge cap for 'default decumulation pathways'. Its view was that the charge cap should be set at 0.75%, the level of the charge cap on default arrangements in qualifying workplace pension schemes used for automatic enrolment.[43] However, we are not minded to impose a charge cap at this stage, either on investment pathways or across the drawdown market at large. This is because the market continues to evolve, and because we have other measures to address pricing concerns.[44] Specifically in respect of investment pathways, it is also not clear to us at this point what the 'right' price is. That said, we expect to see the market deliver competitive charges for all drawdown solutions and will take action if it does not.

3.44 Given the range of charges we have seen in the market to date and the analysis set out in the Final Report, our view is that competition is not working well on charges. We expect firms to develop investment pathways with consumers' best interests in mind, including appropriate charge structures and levels. We expect firms to challenge themselves on the level of charges they impose on investment pathways, using the charge cap on default arrangements in accumulation of 0.75% as a point of reference.

3.45 Should we implement the pathways, we propose a review of the charges being applied to the investment pathways. We propose that this review will begin one year after implementation of investment pathways. As set out in paragraph 1.37 above, if the evidence we gather suggests there are problems, it is highly likely that we will move towards imposing a cap.

Providing investment pathways in Self-Invested Personal Pensions

3.46 We are minded to apply our remedies to the whole of the non-advised drawdown market. This would include drawdown provided by SIPP operators.

3.47 There has been a large expansion in the SIPP market in recent years. Some SIPP operators target mass-market consumers, as opposed to sophisticated and/or high-net-worth investors, including consumers transferring from another pension arrangement to access the pension freedoms. This demand has driven much of the recent growth in the SIPP market. We understand that around 20% of non-advised drawdown is into SIPPs.

43 https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/917/91702.htm (paragraph 22)
44 Our key measures are set out in Chapter 6 of this CP

3.48 We have seen evidence that the potential harms we are concerned about may occur in mass-market SIPPs. For example, 30% of one SIPP firm's non-advised drawdown consumers were wholly invested in cash. Our consumer survey evidence suggested that more non-advised consumers in drawdown in SIPPs are likely to be making an active choice to invest in cash (by comparison to other products). However, it seems probable that a material proportion of the 30% identified should be invested in assets other than cash to meet their retirement income objectives.

3.49 However, traditionally, the role of the SIPP operator is to facilitate self-investment by consumers, rather than offer ready-made investment solutions for them. Some SIPP operators may focus on advised consumers and sophisticated investors. We recognise that some SIPP operators may find it difficult to implement investment pathways, for example, if they lack the resources, expertise or permissions to set up investment solutions for non-advised drawdown consumers.

Q15: **Do you agree that we should apply our remedies to the whole of the non-advised drawdown market, including SIPP operators serving this market? What would be the costs and how would the market respond?**

Q16: **Do you think we should consider carving out from our remedies those SIPP operators focused on advised consumers and sophisticated investors? If so, how do you think we should do this? Should we consider an alternative proportionate solution?**

Limiting the scope of investment pathways

3.50 We could apply the investment pathway remedies to those parts of the market where we believe the greatest scope for harm exists. While we acknowledge that this has the potential to distort the market, we need to weigh this against the need to act proportionately.

3.51 As set out above (in paragraph 3.17), we are minded to consult on rules requiring firms to offer investment pathways to non-advised consumers entering drawdown. This would mean that SIPP operators or other firms offering drawdown would not be required to implement the remedies if they only allow advised consumers to enter drawdown.

3.52 We recognise that some consumers may be less in need of advice before entering drawdown, for example consumers who are able to self-select their own investment strategy. So, we could make exceptions for certain types of consumer, in addition to advised consumers. For example, we could:

- not apply the remedies (choice architecture and investment pathways) to non-advised consumers who certify themselves as sophisticated investors, and/or are certified by the firm as high net worth investors
- not apply the remedies to non-advised consumers who pass an appropriateness test to confirm that these consumers are able to self-select their own investment strategy
- not apply the remedies to non-advised consumers who have a self-selected investment strategy (ie the remedies will only apply to existing consumers in default

strategies and consumers who move provider, even though 'self-select' consumers might benefit from the remedies), or

- not apply the remedies to consumers of SIPP operators focused on advised consumers and sophisticated investors

3.53 This list is not exhaustive.

3.54 We are also considering an alternative approach to focusing the remedies to those parts of the market where we believe the greatest scope for harm exists. Our current thinking (set out in paragraph 3.24) is to allow firms to offer investment solutions for only 1 or 2 investment pathways rather than all 3. We could go further, and not require firms with small numbers of non-advised consumers to offer investment solutions for any investment pathways, provided they refer non-advised consumers directly to another provider for investment pathways. All firms with non-advised consumers entering drawdown would still be required to take these consumers through the choice architecture.

3.55 For this alternative approach, we could set a threshold based on the number of non-advised consumers that the firm serves. We could also take account of the pot sizes of the firm's non-advised consumers.

3.56 We are collecting further evidence on investments held in SIPPs by non-advised consumers and the cost to SIPP operators of providing investment pathways, to help us decide the most viable way to proceed.

Q17: **Do you think that we should limit the scope of application of our rules on the investment pathways? What would be the impact on the SIPP market if we don't limit the scope?**

Q18: **What would be the costs and challenges of the different options set out? Are some more likely than others to distort the market? Are there ways to mitigate the impact of this?**

Q19: **Would SIPP operators be able to demonstrate that their consumers are advised and/or sophisticated/high net worth investors?**

Q20: **How might an appropriateness test work in practice?**

Q21: **Should we not apply the remedy to non-advised consumers who have self-selected an investment strategy even though these consumers might benefit?**

Q22: **Should we instead not require firms with small numbers of non-advised consumers to offer investment solutions for any of the investment pathways, but require them to refer consumers directly to another provider for investment pathways?**

Independent governance

3.57 Non-advised consumers placed in investment pathways may not put competitive pressure on providers to deliver good value for money. Many consumers will be transferring from automatic enrolment schemes in order to access their tax-free cash and enter drawdown. We believe that independent oversight of the appropriateness, quality and charges of investment pathways may be in the interests of these non-advised and less engaged consumers.

3.58 We are minded to do this by extending the existing Independent Governance Committee (IGC) regime to cover investment pathways. Alternatively, we could mandate independent governance arrangements separate from the IGC regime.

Independent Governance Committees (IGCs)

- IGCs were introduced in 2015 to provide independent oversight of workplace personal pension schemes. IGCs have a role similar to that of trustee boards and are a key part of a range of protections we introduced to make sure that workplace schemes deliver value for money for members in accumulation.
- Our rules require each provider of workplace personal pension schemes to establish and maintain an IGC, which must act independently of the provider and solely on behalf of scheme members.
- Under our roles, IGCs have a duty to assess the value for money in accumulation of workplace personal pension schemes and must raise concerns directly with the governing body of the provider.
- The provider must consider these concerns and respond to the IGC with the actions that they propose to take. IGCs may escalate concerns to the FCA, where they consider this appropriate.

3.59 Extending the IGC regime to cover investment pathways, and potentially to other decumulation products, would involve more than extending the remit of existing IGCs. While many insurers already have an IGC, most SIPP operators do not operate workplace personal pension schemes and do not currently have an IGC. So, extending the IGC regime would impose a new requirement for IGCs on those SIPP operators with investment pathways but without an existing IGC. We want to consider whether that would be appropriate and proportionate.

3.60 For smaller and less complex workplace personal pension schemes, we already permit Governance Advisory Arrangements (GAAs) as a proportionate alternative to IGCs. GAAs are provided by a third party, such as a professional trustee firm, which may act for multiple providers at once, thereby lowering the cost to the providers. We could similarly allow GAAs for firms offering investment pathways where the numbers of consumers affected are smaller and the solutions are less complex.

3.61 As an alternative to extending the IGC/GAA regime, we could require the Board of the provider of a decumulation product to consider and attest to the value for money of its investment pathways. In a similar way to our new rules for Authorised Fund Managers[45], we could require, for example, at least 2 independent directors and a minimum of 25%

45 www.fca.org.uk/publication/policy/ps18-08.pdf

independent directors to make sure that the Board has a degree of independence when making this attestation.

3.62 We are also considering whether a requirement for independent oversight should not apply to those SIPP operators that can demonstrate that they only provide drawdown products for advised consumers, or for sophisticated and/or high net worth investors.

Q23: Do you agree that the IGC regime should be extended to investment pathways? If not, what alternative regime would you propose?

Q24: Do you consider that a requirement for independent oversight should apply to other decumulation products (ie not only to investment pathways)? If so, why?

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?

Unintended consequences and other issues

3.63 The proposal we are raising for discussion in this section potentially represents a significant intervention in the drawdown market. We want to hear views on both the likely success of this proposal, and on any unintended consequences.

3.64 There will be other issues that we have not covered in this section. For example, a requirement to provide choice architecture and investment pathways will put costs on firms. Will our proposals to require firms to provide choice architecture and investment pathways have the unintended consequence of firms encouraging more consumers into taking regular Uncrystallised Funds Pension Lump Sums rather than entering drawdown?

3.65 We therefore want to encourage respondents to raise any other issues or concerns they have about these proposals, outside the scope of the questions above, with us here.

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

No single, default investment pathway

3.66 Some stakeholders have indicated that a single, default investment pathway – targeting unengaged consumers that do not make an active investment choice – would be an appropriate intervention. For example, the Work and Pensions Committee has recommended that the Government takes forward our proposal in the Interim Report to require any provider offering drawdown to offer a default drawdown solution targeted at their core customer group. It has also recommended that a 0.75% charge cap should apply to this default and that the remit of IGCs should be extended to include them.

3.67 We believe that a single, default investment pathway is unlikely to adequately capture the diverse needs of consumers in drawdown.

3.68 In reaching this position, we considered the protections that consumers have in accumulation. Workplace pension schemes, that are qualifying schemes for automatic enrolment, must provide a single default investment solution for members who do not choose investment funds within the scheme. Similarly, stakeholder pension schemes must have a default investment solution for members. These default funds – which require no election from the individual to enter them – generally capture a significant proportion of the relevant scheme's membership. Indeed, in the Interim Report we commented that 99% of consumers in the National Employment and Savings Trust (NEST) are invested in the default fund.

3.69 While there is a common objective in the accumulation phase – that is, to maximise the size of the pot at the point of retirement – there are multiple objectives in drawdown, depending on how a consumer intends to use their drawdown pot. For example, a consumer wishing to draw down all of their pot in 2 years would require a different investment solution to a consumer wishing to leave the pot untouched for the rest of their life so it can be inherited by their dependents.

3.70 We are also concerned that a single, default investment pathway may reinforce the lack of consumer engagement we have seen across the pensions and retirement income market. We also consider there may be a potential dampening effect on firms' innovation if most consumers move into a single, default investment pathway.

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.

Potential remedy for discussion: Preventing 'defaulting' into cash

Background

3.71 Consumers often enter drawdown as a consequence of accessing their 25% tax-free cash, which may be their only aim at that stage. These consumers may be engaged with the decision to take their tax-free cash, but they are not engaged with the decision around how they should invest the funds that move into drawdown.

3.72 Immediately after the pension freedoms were implemented, our evidence suggests that a significant number of non-advised consumers were invested wholly or predominantly in cash or cash-like assets when they moved into drawdown. We will refer to cash and cash-like assets simply as 'cash' in the remainder of this section.

3.73 Our evidence suggests that, for some consumers, the decision to invest in cash was one that they made actively. For example, some consumers may have elected to invest in cash as they wanted to draw their fund down quickly, or because they have a very low appetite or capacity for risk. For others, the pot may have been only a small part of their overall retirement wealth.

3.74 For others evidence suggests that the consumer did not make an active decision to move into cash, but rather was 'defaulted' there by their drawdown provider. For a proportion of those consumers, being invested in a fund that aims to provide growth will be crucial to making sure they meet their objectives. We estimate that over half of consumers wholly or predominantly in cash are likely to be losing out on income in retirement by holding cash. For example, we found that someone who wants to draw down their pot over a 20 year period could increase their expected annual income by 37% by investing in a mix of assets rather than just cash.[46]

3.75 We have seen that some firms that were once 'defaulting' consumers to cash no longer do so. However, our evidence shows that a significant proportion of consumers entering drawdown are still invested wholly or predominantly in cash.

Cash must be an active choice

3.76 To address this, we are minded to consult on rules that provide that, if a non-advised consumer moving into drawdown is to invest wholly or predominantly in cash, they must make an active choice to do so. They must not be 'defaulted' into cash.

> **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?**

Warnings around investment in cash

3.77 When the consumer makes an active choice to invest wholly or predominantly in cash, we believe that a firm should give simple, generic warnings to the consumer before they transact. We appreciate that cash is a viable investment choice for some. However, we believe that firms should remind consumers that, if they are looking to invest their drawdown pot for the long-term, some exposure to investment risk is sensible – not least to try to make sure that the capital value of the fund is protected from the effects of inflation.

> **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?**

Dealing with consumers already in drawdown and those moving into drawdown under an existing arrangement who are 'defaulted' into cash

3.78 Some consumers who are already in drawdown will have been 'defaulted' into cash, and will still be invested in cash now. Further, some consumers will enter drawdown in future in their existing scheme. The existing contractual arrangement may provide that consumers who make no investment choice when entering drawdown will be 'defaulted' into cash.

3.79 Our evidence suggests that, at least within some of the firms in our sample, 'defaulting' to cash is a legacy problem. So across the market the problem may be more acute for current consumers in drawdown, rather than consumers entering drawdown in future. We are aware that some firms have taken steps to stop 'defaulting' their consumers into cash. We expect firms to have a strategy for dealing with consumers who have already been 'defaulted' into cash until now, but who are unlikely to be best served by this investment strategy for the remainder of their retirement. We want to understand what action firms have taken on this.

3.80 We are considering making rules to require firms to regularly communicate warnings around investment in cash to consumers who stay in cash for significant periods and

46 We have assumed an asset mix of 50% equities, 20% government bonds, 20% corporate bonds, 7% property and 3% cash. For a consumer with a pot of £100,000 this would be an extra £1,500 per year.

we are interested in views on this. For example, we could make rules providing that if a consumer is invested wholly or predominantly in cash for a continuous period of 12 months, the firm must contact the consumer and provide the warnings around investment in cash. If the consumer remains wholly or predominantly invested in cash for a continuous 12 month period after the first warning was issued, the warnings should be repeated. This process should be repeated until either the consumer has moved into different investments, or they have clearly indicated to the firm that they wish to remain wholly or predominantly invested in cash. We believe that the requirement to communicate with consumers should apply to all communications with consumers who have entered drawdown since the pension freedoms.

Q30: If relevant to you, what have you done – or what do you plan to do – about your current drawdown consumers who have already been 'defaulted' into cash until now, but who are unlikely to be best served by this investment strategy for the remainder of their retirement?

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

Exceptions: Minimum limits & cooling-off

3.81 There may be limited circumstances where investing in cash is likely to be the best option for the consumer (eg where the consumer has a very small pot). As a result, we are considering setting a minimum limit on the application of our rules preventing firms from 'defaulting' consumers into cash.

3.82 We are currently considering what might be an appropriate minimum limit. At present, consumers must take regulated advice where a proposed transfer involving a DB pension or other safeguarded benefits is worth more than £30,000. We want to invite stakeholder views on whether this is an appropriate minimum limit in these circumstances and, if it is not, what might be.

3.83 We also understand that some firms have a cooling-off period for consumers entering drawdown. During these cooling-off periods consumers are typically given a short, fixed time period before investing. We think that firms should be able to hold consumers' drawdown pots in cash during these cooling-off periods without the consumer making an active choice for them to do so.

Q32: Do you agree with the approach we are considering taking in relation to a minimum limit and the cooling-off period? What minimal limit would you suggest? If you do not agree with the approach we are considering taking, what would you suggest?

Preventing 'defaulting' into cash in SIPPs

3.84 The business model of some SIPP operators is to allow consumers to decide over time where to invest their funds. Contributions and transfers into SIPPs may initially be into cash rather than into an investment solution. Many consumers transfer their pension benefits into a SIPP in order to access their tax-free cash and may not always invest their cash in a timely way.

Q33: What impact do you think our proposals on preventing 'defaulting' into cash would have on the business models of SIPP operators? Do you think this change would be appropriate?

4 Improving consumer engagement with retirement income decisions: 'Wake-up' packs, retirement risk warnings and reminders

Introduction

4.1 We acknowledge the limitations of disclosures to consumers. We also acknowledge that the risk of 'information overload' is particularly high in this market, as the choices consumers face are very complex. These findings were reinforced by our research for the Interim Report, which showed that many consumers do not make use of the available information. As we committed to in our Interim Report, our remedy package focuses on ensuring existing information has more impact and is effective.

4.2 This chapter sets out our proposed Handbook changes to improve the effectiveness of open market options statements (commonly known as 'wake-up' packs) and retirement risk warning disclosure for consumers. It draws heavily on behavioural research into 'what works' in terms of providing consumers with information relevant to upcoming financial decisions about accessing pension savings. Stakeholders should respond to the questions in this chapter (questions 34-37) by **6 September**.

4.3 We propose to:

- introduce additional trigger points for 'wake-up' packs to include a pack at age 50 and then every 5 years until consumers have fully crystallised their pension pot
- introduce a single page summary document into the 'wake-up' pack
- introduce additional retirement risk warnings alongside 'wake-up' packs
- prevent firms from including marketing material alongside the 'wake-up' pack and reminder information
- strengthen the messaging in the reminder to encourage consumers to access pensions guidance

Financial Guidance and Claims Act 2018

4.4 Consumers can look for support from a number of sources including a regulated advisor, their employer, their pension provider, or public sources including Pension Wise. The FCA's priority is to ensure that consumers get the support they need. For some this may come from regulated advice. For others, for example those with smaller pots, this may come from the information given by their provider or from free guidance from Pension Wise.

4.5 Providers are currently required to signpost consumers at various stages to Pension Wise and recommend that they seek appropriate guidance or advice to help them understand their options. The question of whether guidance – or referral to guidance – should be compulsory has been widely debated in recent months. This is particularly in light of the impending merger of Pension Wise, The Pensions Advisory Service and the Money Advice Service into a Single Financial Guidance Body (SFGB) and during the passage of the Financial Guidance and Claims Bill (the Bill), which gives legal effect to the SFGB.

4.6 In our work on the ROR, we have considered whether consumers should be required to seek Pension Wise guidance before accessing their pension savings (or whether providers should be required to refer consumers to Pension Wise guidance).[47] In their December 2017 report[48] on protecting pensions against scams, the Work and Pensions Committee recommended a system of default guidance for consumers exercising their pension freedoms. The report explained that this recommendation was one of the committee's priorities for the Bill.

4.7 The Bill has now become the Financial Guidance and Claims Act 2018 (the Act). The Act requires us to make rules providing that, before proceeding with an application to access or transfer a consumer's pension savings, firms must ensure that the consumer has either received appropriate pensions guidance or opted-out of receiving it.

4.8 The Act gives the FCA discretion in certain areas. For example, the Act says we may make rules specifying what constitutes appropriate pensions guidance, and to potentially exempt some consumers, such as those with small pots. This gives us the opportunity to consider how guidance can best be delivered to maximise take-up and impact, and whether some consumers might benefit from an alternative approach. Further, the Act says we may make rules about how, and to whom, a consumer indicates they have received or opted-out of pensions guidance. Therefore, we need to consider whether the consumer should indicate their decision to opt-out to the SFGB or their pension provider.

4.9 The Act requires us to consult with the SFGB before consulting on rule changes. We will be discussing these issues with the SFGB once it is formed. In the meantime, we will work with Government, to test various approaches in order to ensure that our rules support consumers effectively. Once we have consulted with the SFGB we will be saying more, but our aim will be to ensure consumers get consistent, high quality guidance.

Our current requirements

4.10 Our existing requirements for 'wake-up' packs and retirement risk warnings are set out in our Conduct of Business Sourcebook (COBS), at COBS 19.4 and COBS 19.7, respectively.

4.11 'Wake-up' packs are typically provided to consumers 4 to 6 months before their intended retirement date or, if prior to that, where the consumer asks for a retirement

47 Interim Report, paragraph 8.60
48 https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/404/404.pdf.

quotation more than 4 months before retirement date. Information provided with the 'wake-up' pack must include:

- the Money Advice Service's (MAS) fact sheet "Your pension: it's time to choose"[49]
- a summary of open market options which is sufficient for the consumer to make an informed decision
- any other information relevant to the exercise of open market options
- a clear and prominent statement about the availability of guidance from Pension Wise[50]

4.12 At least 6 weeks before a consumer's intended retirement date, firms are required to send a reminder about the 'wake-up' pack, the sum of money available, the availability of guidance from Pension Wise and to recommend that the consumer seeks appropriate guidance or advice to understand their options for accessing pension savings.[51]

4.13 Firms are required to give consumers appropriate retirement risk warnings when they have decided (in principle) how to access their pension savings.[52]

Proposals for consultation: 'Wake-up' packs

Background

4.14 'Wake-up' packs are intended to give consumers adequate information about their retirement options, including signposts to additional sources of information, guidance or advice to help consumers compare options and to decide which option(s) may be most appropriate for them. However, our Retirement Income Market Study[53] highlighted concerns that 'wake-up' packs were largely ineffective at stimulating more informed consumer decisions, primarily because of their length and complexity. We believe this has contributed to a relatively low take-up of pensions guidance, which is currently provided by Pension Wise, the Government initiative providing free and impartial guidance about pension options.

4.15 Most respondents to the Interim Report supported moves to improve the effectiveness of pre-retirement and at-retirement communications to consumers. They thought that existing communications, such as the 'wake-up' pack, should have more impact – rather than the FCA introduce new disclosures. There was support for making 'wake-up' packs simpler and shorter, and for them to be sent earlier (from age 50 or before) and more frequently. However, there was a wider recognition by respondents that communications will only have a limited impact on consumer behaviour and engagement. There was little support for organisations other than firms to provide 'wake-up' packs to consumers. However, we – and stakeholders – recognise that the Pension Dashboard initiative represents an excellent opportunity to improve

49 Or a statement provided by the firm that gives materially the same information (COBS 19.4.6R (1)).
50 COBS 19.4.6R
51 COBS 19.4.9R
52 COBS 19.7
53 www.fca.org.uk/publication/market-studies/ms14-03-3.pdf (page7)

consumer engagement with their pension savings. We are supporting the Department for Work and Pensions on the initiative.

4.16 A number of different 'wake-up' pack options have been trialled by the FCA and HM Treasury/Pension Wise.[54] The FCA trials tested how changes to the 'wake-up' pack impacted on take-up of guidance Pension Wise. We tested the inclusion of:

- a prominent cover signpost to Pension Wise as part of the covering letter of the 'wake-up' pack
- a separate A4 sheet which included information about Pension Wise and space to record booking information if they book an appointment with Pension Wise

4.17 Neither of these 2 'wake-up' pack changes had a statistically significant impact on the use of Pension Wise, switching to a new pension provider or consumers contacting their pension provider for more information. Further detail on the FCA 'wake-up' pack trials is set out in Occasional Paper 38, published alongside the Final Report.

4.18 The HM Treasury/Pension Wise trials aimed to increase engagement with Pension Wise, and more widely with pension decisions. Three trials were undertaken, the first moved the Pension Wise signpost to the front on the 'wake-up' pack and the second trial changed the colour of the Pension Wise signpost to orange. Neither of these 2 trials resulted in a significant increase in the likelihood of consumers visiting the Pension Wise website. In fact, in the first trial the treatment group were less likely to visit the Pension Wise website than the control group.

4.19 The third HM Treasury/Pension Wise trial replaced the 'wake-up' pack with a single side of A4 (called the Pension Passport) including all the essential information a consumer needs to understand the value of their pension and the options for accessing it, and a call to take action – including taking-up Pension Wise guidance and shopping around. The results for the third trial showed a statistically significant increase of 9.8% points in the likelihood of visiting the Pension Wise website, and a statistically significant increase of 3.5% points in the likelihood of calling the Pension Wise information telephone line.

4.20 The responses to the Interim Report and the outcomes of the trials support steps to streamline the key information provided in the 'wake-up' pack, provide the 'wake-up' pack earlier in the consumer journey and increase the frequency of delivery of the 'wake-up' pack.

Our proposals

Timing of the 'wake-up' pack

4.21 We propose to introduce additional trigger points for 'wake-up' packs to be given to consumers. This includes a 'wake-up' pack given at age 50, then again 4 to 10 weeks before age 55 and then every 5 years until consumers have fully crystallised their pension pot. The content of the 'wake-up' pack will depend on the age of the consumer, as well as the time to intended retirement.

54 Details of the HM Treasury /DWP trials can be found at www.behaviouralinsights.co.uk/publications/improving- engagement-with-pension-decisions-the-results-from-three-randomised-controlled-trials/

4.22 We believe that issuing a 'wake-up' pack at age 50 is an appropriate starting point as this is the age that consumers can start to access pensions guidance (which is currently provided by Pension Wise). In addition, our Financial Lives Survey 2017 highlighted that:

- less than half (48%) of UK adults aged 55 and over with no plans to retire within 2 years had given a great deal of thought as to how they will manage financially when they retire
- 30% have not considered how much they should be paying into their DC pension to maintain a reasonable standard of living when they come to retire and 43% had only thought about it a little[55]

4.23 While recognising the limitations of disclosures in changing behaviour we hope that earlier, and more frequent, disclosure of the 'wake-up' pack will encourage more consumers to think earlier about their retirement income needs.

4.24 We also propose to amend our rules to clarify that all consumers must receive at least one 'wake-up' pack before accessing pension savings for the first time. This will make sure that consumers who transfer from a non-FCA regulated pension scheme to an FCA-regulated pension scheme for the sole purpose of accessing their pension savings will receive a 'wake-up' pack at the point they ask to access their pension savings for the first time.

Content of the 'wake-up' pack

Single page summary document

4.25 We propose that all 'wake-up' packs must include a single page summary document[56], limited to one side of A4 if printed, which sets out:

- the firm's name
- contribution rate (including both the employer name, employer and employee contribution rate where applicable)
- current fund value
- statement for consumers to consider whether they are saving enough to meet their needs at retirement (for all 'wake-up' packs issued more than 6 months prior to intended retirement date)
- statement about whether guarantees and other special features apply and how to find out further information
- intended or contractual retirement date
- a clear and prominent statement about the availability of pensions guidance (which is an existing requirement)
- the Government logo and the logo for the organisation providing pensions guidance next to, or above, the statement about the availability of pensions guidance

55 www.fca.org.uk/publication/research/financial-lives-survey-2017.pdf (page 85)
56 Referred to by some as a 'Pensions Passport' (including the Work and Pensions Committee – see paragraph 4.26).

4.26 The Work and Pensions Committee, in their Ninth Report of Session 2017-19, made a recommendation that the FCA 'require all pension providers to issue one-page Pension Passports as part of their pre-retirement communications with members'.[57] The recommendation was made in light of the research referred to above at paragraph 4.19, which we have used to help inform our policy proposals.

4.27 We propose that the 'wake-up' pack given at age 50 consists only of the single page summary document set out above.[58] It will not, for example, include the MAS factsheet. This is because the consumer will not be able to access their pension savings at that time. We believe that the provision of too much information about accessing pension savings at age 50 could cause confusion.

Money Advice Service Factsheet

4.28 We propose to keep the requirement for the 'wake-up' pack to include the MAS factsheet or a statement by the firm that gives materially the same information for all 'wake-up' packs, except for the 'wake-up' pack sent at age 50. As noted above, this is because at age 50 consumers cannot access their pension savings, so the provision of this additional information could cause confusion. We will work with MAS as they look to refine their factsheet to help make sure that the messaging is appropriate at different stages of the consumer journey, including encouraging consumers to shop around.

Other information to help consumers make an informed decision

4.29 We propose to change the current requirement for 'wake-up' packs to include a summary of open market options which is sufficient for the client to make an informed decision, and any other information relevant to the exercise of open market options.[59]

4.30 Instead of the current requirement, we propose that 'wake-up' packs, with the exception of the wake-up pack issued at age 50, disclose separately any other information which is sufficient to enable consumers to make an informed decision about their options for accessing pension savings. This is to make sure that consumers who do not seek advice or take-up pensions guidance continue to be provided with sufficient information to help inform their decision making. In addition, asking for this other information to be given separately from the single page summary document should help consumers engage with the key messages in the single page summary document. Firms should consider the amount of other information given to make sure that the 'wake-up' pack is not too long.

4.31 We propose to introduce guidance which sets out that, where firms provide other information (including links, such as hyperlinks or online calculators), this additional information cannot be so intrusive that it could distract the consumer from the single page summary document.

Marketing material

4.32 We propose to require that the 'wake-up' packs must not include marketing material (such as promotional information about the firm or its products), which extends the existing requirement that 'wake-up' packs cannot include a pension application form. This will help focus consumer attention on the key elements of the 'wake-up' pack.

57 https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/917/91702.htm (paragraphs 37 – 39 (inclusive))
58 Although the retirement risk warnings will be provided alongside the 'wake-up' pack at 50 (paragraphs 4.33 to 4.37 (inclusive) below).
59 Currently set out in COBS 19.4.6R (2)

4.33 These proposed changes should make sure that consumers are provided with more effective and timely communications about their options for accessing pension savings and the availability of guidance as they approach retirement.

Q34: Do you agree with our proposals on 'wake-up' packs? If not, how should we change them?

Proposals for consultation: Retirement risk warnings

4.34 At present, our rules require retirement risk warnings (often referred to as the 'risk warnings') to be given to a consumer at the point where they have made a decision, in principle, about how to access their pension savings. Our consumer research set out in the Interim Report highlighted that most consumers viewed risk warnings as a hurdle as they had already made up their mind.[60] A number of respondents to the Interim Report raised concerns that the risk warnings come too late in the consumer journey to influence decisions. Furthermore, research undertaken by Citizen's Advice found that fewer than 2% of consumers reported having altered their plans as a result of receiving a risk warning.[61]

4.35 We consider that the existing risk warning requirements enable firms to provide appropriate warnings to consumers about the option they have selected in principle, to access their pension savings. However, we consider there is value in firms providing more generic risk warnings earlier in the consumers' journey.

4.36 We propose that alongside the 'wake-up' packs, firms will be required to include risk warnings, limited to 1 side of A4. We propose that firms will be required to make their own assessment as to what risk warnings should be provided. We propose to introduce guidance setting out that the sorts of risk factors which relate to open market options include:

- age
- fund value
- intended retirement date
- risk of foregoing employer contributions and/or means-tested benefits
- risk of losing Financial Services Compensation Scheme (FSCS) protection
- investment strategy
- other factors set out in COBS 19.7.12 G (which include tax implications)

4.37 An example of a risk factor could be where a consumer is in a workplace scheme and still receiving an employer contribution, but accessing their pension at that stage may result in employer contributions stopping.

60 Interim Report, paragraphs 4.52 to 4.54 (inclusive)
61 www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/DrawingPension.pdf (page 2)

4.38 In one instance, however, we propose to mandate a specific risk warning that must be provided. We propose that the risk warnings issued alongside 'wake-up' packs sent from 10 weeks before the consumer reaches age 55, but more than 6 months prior to the consumer's retirement date, must include a clear and prominent statement that accessing the pension fund at this stage may not be the best option for the consumer. We do not consider this statement would assist consumers who are less than six months from their retirement age or have not yet reached an age when they can access their pension savings.

4.39 We also propose to provide guidance that, for the risk warnings issued with the 'wake-up' pack, firms can rely on information already held on the consumer (for example, number of dependents) to decide which warnings are appropriate, but should tell the consumer about any key assumptions underlying the warnings and must inform the consumer what personal data it relied on to provide the warnings.

Q35: **Do you agree with our proposal to mandate specific retirement risk warnings alongside 'wake-up' packs? If not, how should we change it?**

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

Summary of proposals for the 'wake-up' pack and retirement risk warnings

4.40 The table below sets out the key elements of our proposals for the timing and content of 'wake-up' packs and risk warnings, covered in paragraphs 4.21 to 4.39 (inclusive) above.

	Age 50	4-10 weeks before age 55 and every five years until consumers have fully crystallised their pension pot	4-6 months prior to intended retirement date
Single page summary document	Yes	Yes[62]	Yes (excluding statement about saving)
Attach MAS factsheet	No	Yes	Yes
Separately disclose other information to enable consumers to make an informed decision	No	Yes	Yes
Retirement risk warnings (maximum of 1 side of A4)	Yes	Yes[63]	Yes (excluding the statement that accessing the pension fund at this stage may not be the best option)

4.41 We expect our proposals to improve the 'wake-up' pack and risk warnings will increase consumer engagement with their options for accessing pension savings and take-up of pensions guidance. We also believe that our approach is consistent with work the Department for Work and Pensions (DWP) is undertaking to improve the effectiveness

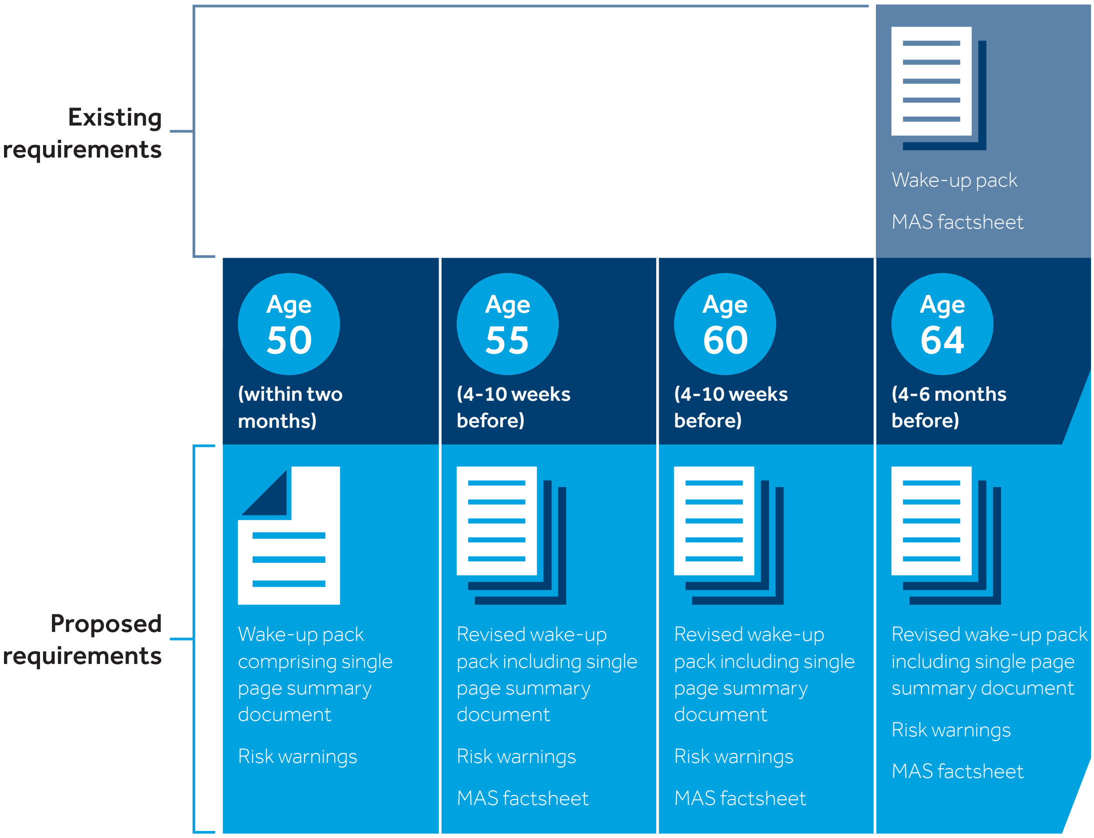
62 Where issued more than 6 months before the intended retirement age the single page summary document must include the statement for consumers to consider whether they are saving enough to meet their needs at retirement.

63 Where issued between 4-10 weeks before age 55 and more than 6 months prior to the intended retirement age the risk warnings must include a statement that accessing the pension fund at this stage may not be the best option for the consumer.

of the annual benefit statement. In December 2017, the DWP's Automatic Enrolment Review identified that 'there is an opportunity to provide a short, simple and consistent annual benefit statement that could be used by all providers making it easier for individuals to understand …'.[64]

4.42 As an example of the impact of our 'wake-up' pack and risk warnings proposals, the following graphic shows the change in information given for a consumer with an intended retirement age of 64:

Figure 3: Example of the impact of 'wake-up' pack and risk warning proposals (assumes intended retirement age of 64)



Proposals for consultation: Reminder about the 'wake-up' pack and pensions guidance

4.43 Firms are required to send a reminder about the open market options available to the consumer to access their pension savings, including reminding the consumer about the availability of pensions guidance, currently provided by Pension Wise. This must be sent at least 6 weeks before a consumer's intended retirement date.

4.44 Due to the increasing importance of DC pension savings we looked to see if there were ways to increase consumer use of pensions guidance. We undertook a trial measuring the impact of different disclosures for a Pension Wise reminder letter issued 4 weeks

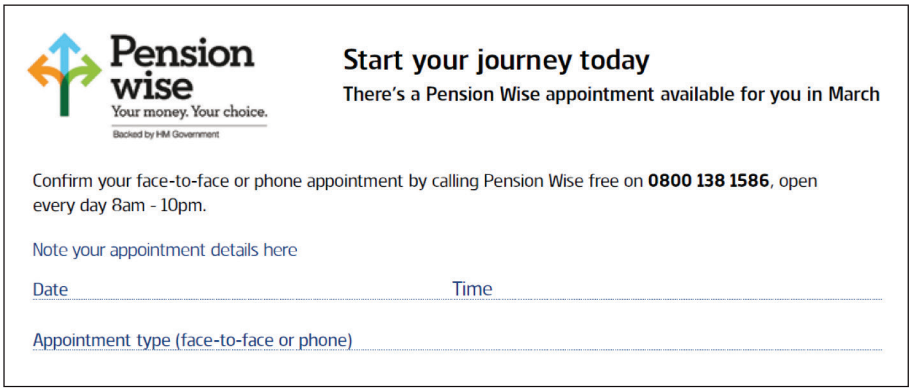
64 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668971/automatic-enrolment-review-2017-maintaining-the-momentum.PDF

after the 'wake-up' pack (ie not part of our existing disclosure requirements). The disclosures tested were:

- a signpost to Pension Wise (group 1)
- a signpost and box to record appointment details (group 2)
- a signpost, appointment box and statement that appointments are available (group 3)

4.45 We found that Pension Wise take-up was lowest for group 1 (with 8% of consumers contacting Pension Wise), higher for group 2 (10%) and highest for group 3 (12%).

4.46 The box below sets out the disclosure for group 3, which had the largest positive impact on Pension Wise take-up.


Pension wise
Your money. Your choice.
Backed by HM Government

Start your journey today
There's a Pension Wise appointment available for you in March

Confirm your face-to-face or phone appointment by calling Pension Wise free on **0800 138 1586**, open every day 8am - 10pm.

Note your appointment details here

Date ______________________ Time ______________________

Appointment type (face-to-face or phone) ______________________

4.47 The trial was undertaken on a reminder letter issued 4 weeks after the 'wake-up' pack, rather than based on our existing reminder requirement (ie disclosed at least 6 weeks before retirement). However, we believe that the trial evidence supports the following improvements to our reminder requirements.

4.48 We propose to amend our reminder requirements so that firms are required to give a clear and prominent recommendation that consumers use pensions guidance, and a statement that appointments are available. The following table sets out our proposed change to the reminder requirements:

Existing reminder requirement	Proposed reminder requirement
(1) remind the client about the open market options statement ('wake-up' pack)	No change
(2) tell the client what sum of money will be available to exercise open market options	No change
(3) remind the client about the availability of the pensions guidance; and	Clear and prominent recommendation that clients use the pensions guidance service and a statement that appointments are available; and
(4) recommend that the client seeks appropriate guidance or advice to understand their options at retirement	No change

4.49 We expect this change will encourage better take-up of pensions guidance. As set out in Occasional Paper 38, telling consumers that an appointment is available can reduce their concern about taking an appointment which they think someone else would have used. We do not propose to prescribe a format or template for firms to use for the reminder. We do intend to provide guidance so that firms can follow the disclosure shown above as a way of complying with the reminder requirement for pensions guidance.

4.50 At present our rules do not permit an application form for a pension decumulation product to be included with the reminder. We propose to extend this so that the reminder must not include any marketing material. This will make sure that the reminder is kept short and has a positive impact on consumer engagement and take-up of pensions guidance.

> **Q37: Do you have any comments on our proposals for the reminder?**

5 Improving consumer engagement with retirement income decisions: Annuity information prompt

Introduction

5.1 The number of annuity sales has declined following the introduction of pension freedoms in 2015. However, we estimate that there will still be around 60,000 to 80,000 sales every year.[65] Different types of annuities are available and enhanced annuities remain an important pension product. They potentially provide a significantly higher level of annuity income for consumers who have lifestyle or medical conditions that adversely affect their life expectancy. It is important that consumers looking to purchase an annuity, who may be eligible for an enhanced annuity, are given sufficient information to help them make an informed decision.

5.2 In CP16/37[66] we consulted on rules to introduce annuity information prompts ('information prompt') to help inform consumers how much they could gain by shopping around and switching provider. Where relevant, the information prompt will show the difference between the firms' quote and the highest quote available on the market for a like-for-like annuity. Following publication of our Policy Statement PS17/12,[67] rules for the pension annuity information prompt came into force in March 2018.

5.3 As set out in CP16/37, the information prompt rules were not intended to solve the issue of consumers who would qualify for an enhanced annuity on the open market, but instead purchase a standard annuity from their existing provider. In this chapter we set out our proposals for how we intend to improve the effectiveness of the information prompt for consumers potentially eligible to purchase enhanced annuities.

5.4 This chapter also sets out proposed Handbook changes to amend the information prompt requirements where firms provide consumers with income-driven – rather than purchase-price driven – annuity quotes. An income-driven annuity quote is provided where a consumer asks a firm to quote how much it would cost to purchase an annuity providing a specific level of income. We understand that there are a small number of firms who currently provide income-driven annuity quotes to consumers, or are planning to do so.

5.5 We are making changes now to address issues raised by stakeholders since publication of our Policy Statement in May 2017[68], including issues raised in response to the Interim Report. Stakeholders should respond to the questions in this chapter (questions 38-40) by **6 September**.

65 Our most recent retirement income data indicated that annuity sales in the 6 months ended September 2017 were 36,891.
66 www.fca.org.uk/publication/consultation/cp16-37.pdf
67 www.fca.org.uk/publication/policy/ps17-12.pdf
68 www.fca.org.uk/publication/policy/ps17-12.pdf

5.6 In summary we propose to:

- require firms to ask consumers who express an interest in purchasing an annuity, questions to determine whether they are potentially eligible to purchase an enhanced annuity
- require firms to use the enhanced annuity information, where relevant, to generate a market-leading annuity quote
- amend the information requirements in the annuity comparison template to remove the additional narrative referring to enhanced annuities
- amend the information requirements in the annuity comparison template for income-driven annuity quotes including reversing the information for the net annuity purchase amount and annual income

Current requirements

5.7 The requirements for the information prompt are set out in COBS 19.9[69] and the information prompt templates are included in COBS 19 Annex 3R.

5.8 The rules require firms to give their pension annuity quote in a prescribed template when they provide a consumer with a guaranteed quote for a pension annuity. If the highest quote is the market-leading quote, rather than the firms' own quote, the disclosure must include a visual comparison of the difference in the annuity income between the 2 quotes. Firms must also set out an additional narrative about enhanced annuities:

> "Did you know?
>
> If you've not already been asked questions about your health or lifestyle, answering these could get you even more income. For example, if you've smoked tobacco, been advised by a medical professional to adjust your lifestyle to improve your health or had a medical condition requiring prescribed medical or hospital treatment – you may be entitled to more income than is quoted above."

Proposals for consultation: Eligibility for enhanced annuities

Background

5.9 Our previous thematic reviews on annuities found that consumers who qualify for an enhanced annuity on the open market but purchase a standard annuity from their existing provider risk receiving significantly lower retirement income than if they had shopped around. In our Thematic Review, TR16/7, we found around 39% to 48% of consumers who purchased a standard annuity from their existing provider may have been eligible to purchase an enhanced annuity.[70]

69 www.handbook.fca.org.uk/handbook/COBS/19/9.html?date=2018-03-01
70 www.fca.org.uk/publication/thematic-reviews/tr16-7.pdf

5.10 Our current rules require that firms provide a statement in the information prompt that says that consumers may be eligible to purchase an enhanced annuity, to prompt them to shop around. In our Interim Report we asked whether consumers' potential eligibility to purchase an enhanced annuity should be raised earlier in the consumer journey, or whether there was a better way of making sure consumers are made aware of their potential eligibility to purchase an enhanced annuity.[71] Many respondents supported the introduction of measures to raise consumer awareness of potential eligibility to purchase an enhanced annuity. In light of this feedback, we believe it is appropriate to strengthen the information prompt requirements for enhanced annuities.

Our proposals

5.11 We propose requiring firms to ask consumers interested in purchasing an annuity, questions that will help the firm to determine whether the consumer is eligible to purchase an enhanced annuity. We propose that firms must use this information when generating a market-leading annuity quote. These proposals would apply to all firms offering pension annuities. This includes provider firms who only provide standard annuities. Where firms who only provide standard annuities, ask consumers questions to determine eligibility for an enhanced annuity for the purpose of generating a market-leading annuity quote, we propose to require that this information is only used for this purpose. Firms may use the facility on the MAS website to assist in the generation of market-leading comparison quotes. If consumer is not eligible for an enhanced annuity, or simply refuses to answer the firm's questions, then firms can generate the market-leading quote on a non-enhanced basis.

5.12 We also propose to amend the information requirements in the annuity comparison template to remove the additional narrative about enhanced annuities. We believe that, with the improvements to the annuity comparison template, this additional narrative is unlikely to provide additional benefit for the consumer. This is because firms will already have asked consumers questions about eligibility for enhanced annuities and used this information to produce relevant quotes.

5.13 The table below shows the potential impact of the proposed change on firms who only provide standard annuities:

	Existing requirements	Proposals
Do firms need to ask questions to determine eligibility for enhanced annuities?	No	Yes
Do firms need to use this information to generate market-leading comparison quote?	No	Yes
What market-leading comparison is required?	Market-leading standard annuity quote	Market-leading enhanced annuity quote (where relevant)

5.14 These proposed changes will provide more meaningful annuity prompt comparisons for consumers who may be eligible for enhanced annuities. We expect that these improvements to the annuity information prompt will increase the numbers of consumers shopping around and result in a higher proportion of annuity consumers benefiting from enhanced annuities.

71 Interim Report, Q6 (page 114)

Q38: **Do you agree with our proposal to require firms to ask consumers questions that will help a consumer determine whether he or she is entitled to an enhanced annuity?**

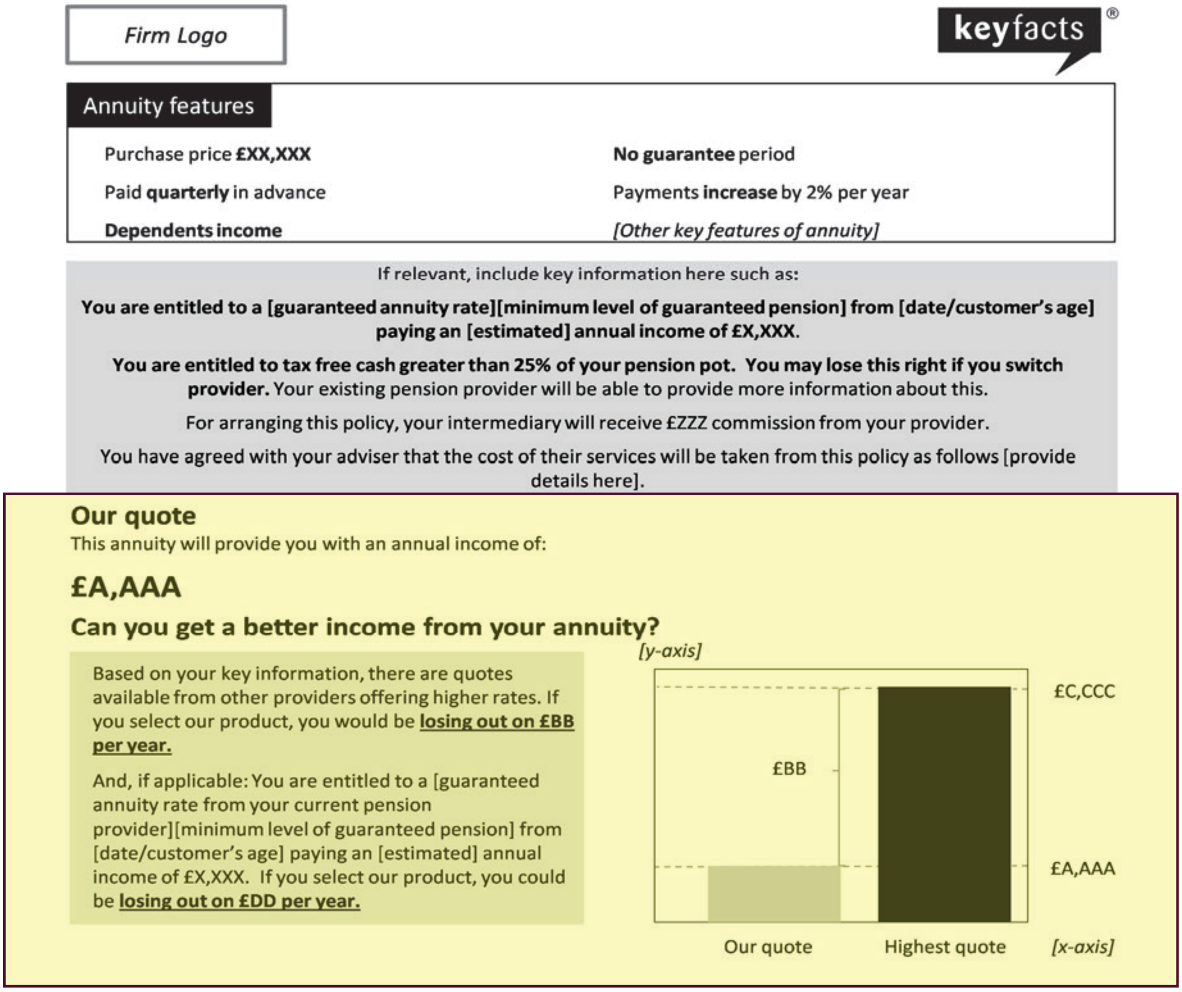
Q39: **Do you agree with our proposal to require that firms include information about the consumer's potential eligibility for an enhanced annuity in the quote for comparison?**

Proposals for consultation: Income-driven annuity quotes

5.15 Our existing rules relating to the information prompt were not designed to compare income-driven annuity quotes. The information prompt requirements, which include the use of prescribed templates, are designed to compare quotes for the level of annuity income that consumers could obtain with their pension pot (ie on the basis of a purchase price). They were not designed for a situation where a consumer is looking for a particular level of income (income-driven quote) and wants to know how much that will cost. For income-driven quotes, our existing information prompt will not provide a helpful comparison as firms are only required to compare the amount of income that would be provided rather than the cost of providing that income.

5.16 For example, if a consumer is looking to purchase an annuity paying an income of £3,500 and Firm A quoted a price of £100,000 (purchase price) but Firm B offered a market-leading quote of £95,000 (purchase price), under our existing rules the information prompt would only compare the level of annual income. In this case, the information prompt would show that both quotes provide an annual income of £3,500 but would not show that Firm B's quote was better value, costing £5,000 less.

5.17 The existing information prompt template (where the market-leading quote is better than the firms' quote) – set out below – shows that a key comparison tool for consumers is the chart showing the difference in income.


Firm Logo

keyfacts®

Annuity features

Purchase price **£XX,XXX**

Paid **quarterly** in advance

Dependents income

No guarantee period

Payments **increase** by 2% per year

[Other key features of annuity]

If relevant, include key information here such as:

You are entitled to a [guaranteed annuity rate][minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX.

You are entitled to tax free cash greater than 25% of your pension pot. You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, your intermediary will receive £ZZZ commission from your provider.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote

This annuity will provide you with an annual income of:

£A,AAA

Can you get a better income from your annuity?

Based on your key information, there are quotes available from other providers offering higher rates. If you select our product, you would be **losing out on £BB per year.**

And, if applicable: You are entitled to a [guaranteed annuity rate from your current pension provider][minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX. If you select our product, you could be **losing out on £DD per year.**

5.18 We propose that, where firms are providing income-driven quotes, different information prompt templates are used so that the information prompt clearly depicts the difference in purchase price and provides information which is relevant to a comparison of an income-driven quote. For example, the bar graph will be required to show the difference in purchase price of an annuity providing the required level of annual income. This means that the annuity features in the information prompt would reflect the required annual income rather than the net annuity purchase amount (the pension fund that will be used to purchase the proposed annuity). In addition, the annuity income bar chart will change to become a net annuity purchase amount bar chart. This will compare the firms' quote with a market-leading quote (where the market-leading quote is higher than the firms' quote). We also propose amending the information prompt requirements to highlight to consumers, circumstances where the firm's own quote or market-leading quote offer the lowest cost for the requested income, but that a guaranteed annuity would provide a higher overall annuity rate.

5.19 We expect the proposed changes will facilitate better and more meaningful comparison information for consumers who wish to purchase an annuity that provides a requested level of annuity income.

Q40: **Do you agree with our proposal for amending the annuity information prompt requirements for income driven quotes? If not, how would you suggest we amend the information prompt to achieve our policy objectives?**

6 Promoting competition by making the cost of drawdown products clearer and comparisons easier

Introduction

6.1 Our Final Report found that drawdown charges can be complex, opaque and hard to compare. Products can have as many as 44 charges linked to them. This makes it difficult for consumers to compare products and shop around for the best products, which contributes to the limited competitive pressure on providers to offer good deals. In addition many of the consumers who decide to go into drawdown[72] are doing so on a non-advised basis.

6.2 To help consumers make better informed decisions, we propose to require that:

- a Key Features Illustration (KFI):
  - includes key front page summary information
  - within the summary, includes a one-year single charge figure in pounds and pence ('cash terms')
  - presents information that takes inflation[73] into account(figures in 'real' terms rather than nominal terms)
  - is provided to consumers using an existing contract to move funds into drawdown or taking an income for the first time, including an uncrystallised funds pension lump sum (UFPLS) payment
- annual communications:
  - no longer mention the option of obtaining advice, but include text on reviewing decisions and investments, and the need to consider a review of pension decisions made
  - are provided to consumers who have not taken an income

6.3 Our proposals for consultation are set out under the headings 'Changes to drawdown information' and 'Communication to clients' in this chapter. Stakeholders should respond to questions in these sections (questions 41 to 46) by **6 September**. We are also including for discussion potential proposals to require firms to give consumers actual annual charge information as part of the annual communications. These

72 The proportion of consumers entering into drawdown contracts without taking advice had risen from 5% pre-reforms to 37% (drawdown refers to partial income drawdown) . This raised questions around how well consumers are navigating the complexity of drawdown choices without advice.

73 If inflation is to be taken into account, our rules in COBS 13 Annex 2 paragraph 2.5 set out the assumed rate.

changes are predominately aimed at helping non-advised consumers, but we believe that advised consumers will also benefit from receiving clearer information. Stakeholders should respond to questions in this section (questions 47 to 49) by **9 August**.

Background to our proposals

6.4 Our review found that drawdown charges can be complex and unclear, so they are not easy to compare. We also found wide price dispersion across a range of firms offering drawdown products.[74] It is important that charges are presented in a way that improves consumer engagement, understanding and the ability to compare. This should promote competition and downward pressures on firms' charges, and help consumers get a better deal. Even a small reduction in charges can make a significant difference to long-term savings and investments.

6.5 Our recent supervision thematic work[75] also found that charges information is not always sufficiently highlighted to consumers by firms. Where consumers enter drawdown by exercising an option in an existing contract, they may not receive any charges information. We also identified significant variation in the format and presentation of charges across providers and in most cases charges were not displayed prominently.

6.6 Cost is just one of a range of factors that determine value for money, but it is a very important component. Charges can have a significant impact on the value of pension pots over time. We believe it is important that consumers engage at the time of entering into drawdown and continue to consider their options while in drawdown. Other factors for consideration throughout drawdown include reviewing decisions about the level of income taken and investment choices.

Proposals for consultation: Changes to drawdown information

6.7 Consumers typically enter drawdown via a new contract or by exercising an option to an existing contract. Currently, a consumer receives a KFI for the former and the information mandated by our variation of contract disclosure rules for the latter. Our rules in general require that a KFI must include appropriate charges information, information about any interest that will be paid to clients on money held within the pension, and a projection (or projections).

6.8 At present, firms must provide a KFI to consumers in good time when entering drawdown in a new contract. This is set out in our rules on providing product information to clients.[76] When an existing contract is varied or a drawdown option is exercised, our rules require firms to provide only such information as is necessary for the consumer to understand the consequence of the variation.

74 Final Report, Chapter 4
75 www.fca.org.uk/publication/multi-firm-reviews/non-advised-drawdown-pension-sales-review.pdf
76 COBS 14.2.1R(3)

6.9 We propose to amend our rules to require that the content of a KFI:

- includes key front page summary information
- within the summary, includes a one-year single charge figure in pounds and pence
- presents information that takes inflation into account
- is provided to a consumer using an existing contract to move funds into drawdown or taking an income for the first time, including an uncrystallised funds pension lump sum (UFPLS) payment

Front page summary

6.10 To improve the presentation of key information in the KFI we propose a summary front page. This will bring forward key information already detailed throughout the KFI to make it more prominent. An example of the form this could take is detailed in Annex 2. We consider that bringing out these key elements more clearly to the attention of consumers should help engagement. Importantly, the charges information which typically appears a number of pages through a KFI would be presented earlier and in a more succinct and engaging way.

6.11 Behavioural research – including our 'wake-up' pack research – consistently finds that consumers engage more when they are not given excessive information.[77] Therefore we propose to require the provision of key information on the front page of the KFI to help understanding and engagement.

Charges figure expressed as a cash amount

6.12 Building on the Oxera research we commissioned at the Interim Report stage, we have considered how to apply what we have learnt to our regulatory approach.[78] This research tested a variety of ways to present charges information. It found that a charge figure presented in pounds and pence helped consumers the most in assessing the cost of drawdown. The best performing results were 'pension savings available after cost' and 'average cost', both of which had a statistically significant positive impact on consumers choosing the lowest cost product. Given these findings, we sought to develop a similarly presented charge alongside existing information used in the KFI.

6.13 The KFI currently uses a reduction in yield (RIY) percentage figure to show the impact of charges over a given period of time. This measure performed less well in our Oxera research as many consumers find it hard to understand percentages. However, this figure does have the benefit of providing consumers with comparable costs over a specific pension term. We believe this is useful and propose to keep this figure. Although MIFID II requires the disclosure of all costs and charges (including transaction costs), this does not apply to pensions. So the RIY figure required for pensions does not include transaction costs or charges which are dependent on a future outcome, such as investment performance. However, we believe that the total actual charges paid (including these additional costs) should be available to consumers on an annual basis. This is why we discuss the introduction of 'actual' charges information later in this chapter.

77 See Chapter 4
78 www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report-annex5.pdf

6.14 In addition to the RIY we propose to show a first year charge, in pounds and pence. This figure will be derived from the effect of charges table that already exists in the KFI. We will mandate that the figure is placed on the front page of the KFI, which will give increased prominence to charges. This figure will allow consumers to more easily compare charges across a number of providers. It is particularly useful in the early stages of shopping around, when term length may not be known to the consumer.

6.15 We would intend this 1 year figure to be used to inform consumers of the costs of different investment pathways, and as the basis for comparing costs in any future comparator tool. This is a simple charge that consumers can easily engage with across the consumer journey, whether selecting a pathway, using a comparator tool or at the point of receiving their KFI. Over time, the pounds and pence charge would be a consistent charge that consumers will recognise. When the KFI stage is reached, the RIY figure can be used with this to allow consumers to look at charges over the term of their product.

6.16 We recognise that the pounds and pence figure does not take account of any changes to costs beyond year 1, such as tiered charges that may apply if a pension pot is reduced over time. We considered whether an average pounds and pence charge would be more useful, but decided that it would not. The use of an 'average' cost brings further complications in that a fixed term is required for comparability purposes. Selecting a term that is meaningful to all consumers is difficult as pension pot sizes and terms can vary significantly. For example, taking a 10 year term would not be meaningful for those with small pots which may be used up in 5 years or equally for those with funds which may provide an income for 20 years or more.

6.17 Firms may try to reduce this 1 year charge figure, for example by offering discounts in the first year. To stop such gaming, firms must provide a figure without any preferential rates that a firm may provide in the first year or beyond. We will be monitoring the market to check that firms are not trying to avoid disclosure by amending charging structures in other ways without good reason.

KFIs calculated on a 'real' instead of a 'nominal' basis

6.18 Currently firms are permitted to provide KFIs for drawdown in real terms (inflation adjusted) or in nominal terms. A KFI prepared in nominal terms does not take account of inflation. A KFI produced in real terms does take account of inflation. Real terms present all future outcomes in terms of what money would buy today (taking into account inflation), making projections of future annual income directly comparable with the purchasing power of people's current income. Consumers do not have to do mental accounting to compare future projected incomes with their current income. We propose to make rule changes requiring firms to produce KFIs in real terms only. This will help consumers gain a better understanding of what they will be able to afford and provide consistency for consumers. This is especially relevant where they may have multiple pension pots, or individual pots that are only partially-designated to drawdown.

6.19 Since 2014, we have required firms to provide KFIs in real terms for pensions in accumulation. In CP12/29[79], we asked a discussion question on the approach to real or nominal illustrations for drawdown KFIs. The introduction of real terms was favoured

79 CP12/29 – Feedback to CP12/5 and final rules on disclosures by SIPP operators, and consultation on inflation-adjusted illustrations, November 2012 (www.fca.org.uk/publication/consultation/cp12-29.pdf)

by some respondents but at the time we indicated we would not mandate real terms without further consideration.

6.20 Significantly more consumers are entering drawdown since the pension freedoms. So, it has become more important that consumers have the ability to compare drawdown across providers. There needs to be a consistent basis for drawdown illustrations, including the charges, to allow consumers to compare across providers on a like for like basis. So we are proposing that all firms should present drawdown KFIs using calculations in real terms, that take account of inflation. This will not prevent providers from providing an optional, additional KFI prepared in nominal terms on request.

Requiring a KFI when accessing drawdown as an option or variation

6.21 Currently consumers enter drawdown by taking out a new contract, exercising an option in their existing contract, or varying an existing contract (depending on what accumulation product they have invested in). Where consumers enter drawdown by exercising an option or varying an existing contract, the variation rules[80] require firms to provide 'sufficient information about the variation for the client to be able to understand the consequences of the variation'. This means that firms can provide the information they consider relevant, and we have found that charges information is not always provided. Conversely, consumers taking out a new contract receive a KFI which details charges and other useful information.

6.22 Our thematic review of non-advised drawdown pension sales[81], found that charges are not always consistently highlighted, particularly where consumers access drawdown by an option or a variation of their contract. They may only have received detailed charges information at the start of the contract, which may have been some years ago.

6.23 We believe that information on charges is also relevant the first time a consumer moves funds into drawdown, and the first time they take an income (where this happens later) or if that income is an UFPLS payment. We want to make sure consumers receive the same information whether they are using an existing contract or entering a new contract, or taking income using different methods. So, we propose that consumers should be provided with a KFI, including charges information, on accessing drawdown through an existing or new contract or using UFPLS. These proposed changes will help to make sure consistent information is provided to consumers.

Q41: Do you agree that key information should be summarised on the front page of KFIs?

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

Q43: Do you agree that information in KFIs should be presented in real terms (that takes account of inflation)?

80 COBS 14.2.1R(3)
81 www.fca.org.uk/publication/multi-firm-reviews/non-advised-drawdown-pension-sales-review.pdf

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)?

Proposals for consultation: Communication to clients

6.24 We propose to make 2 changes to ongoing information:

- We will require firms to provide regular communications for consumers who have not taken an income
- We will replace the requirement to give information about advice, with a requirement to mention in regular information the need to consider a review of pension decisions made

Requiring firms to provide regular client communications for those who have not taken an income

6.25 Currently, our rules[82] require firms to provide clients who have taken an income, at intervals no longer than 12 months, with enough information to review their decision to make income withdrawals. Our thematic review found that where clients have taken tax free cash only, but no immediate income, some firms did not provide comprehensive information about charges and investment returns (annually or otherwise). This means clients could not review their drawdown decision and decide whether it still meets their needs.

6.26 We have found that many consumers are entering drawdown to take tax free cash. These consumers may only take an income at a later date – potentially many years after entering drawdown. We believe these consumers should be provided with annual information and treated in the same way as consumers who have taken an income. This would give them the chance to review their investment choices, charges, income decisions and sustainability, nudging them to consider if it is still appropriate to their needs.

Replacing the advice wording in communications to clients

6.27 Where our rules require regular client communications, firms must currently inform consumers that it would be in their best interests to obtain advice on investments in respect of their income withdrawals.[83] This rule was written when drawdown was usually only available to consumers with larger accumulated pensions, and withdrawals were subject to age-related limits, so advice could be critical to consumers.

6.28 Since the introduction of pension freedoms, we have re-considered the relevance of this requirement. Most pots moving into drawdown now are small; it will not necessarily be in the best interests of many consumers with small pots to pay for advice on investments and their income withdrawals.

82 COBS 16.6.8R
83 COBS 16.6.8R(2)

6.29 We propose to amend the existing rules and require firms to remind consumers to consider reviewing their decisions, particularly investment choices, especially if their circumstances and retirement objectives have changed.

Q45: **Do you agree that firms should provide regular client communications for those who have withdrawn tax free cash but not taken an income?**

Q46: **Do you agree that firms should regularly remind consumers to consider reviewing their decisions, particularly investment choices, rather than reminding them how to obtain advice?**

Proposal for discussion: actual charges information

6.30 To facilitate a competitive drawdown market, consumers should have access to the charges they have actually paid.

6.31 As explained previously, MIFID II does not apply to the pension sector, so the requirement to disclose actual annual charge information is new. In addition, we did not explore information on actual charges in our Interim Report. We would like to raise this for discussion so firms contribute to our thinking on how the disclosure of actual charges paid might be best achieved, rather than consulting on rules at this stage.

6.32 Currently firms must set out charges assumptions as part of the KFI, but our rules do not require annual disclosure to consumers of charges they have paid– although our rules do not prohibit firms from doing so. After reviewing a small sample of consumer communications, many firms are choosing not to include charges paid in annual communications or, where information is provided, it is presented in ways which are not easy for consumers to understand.

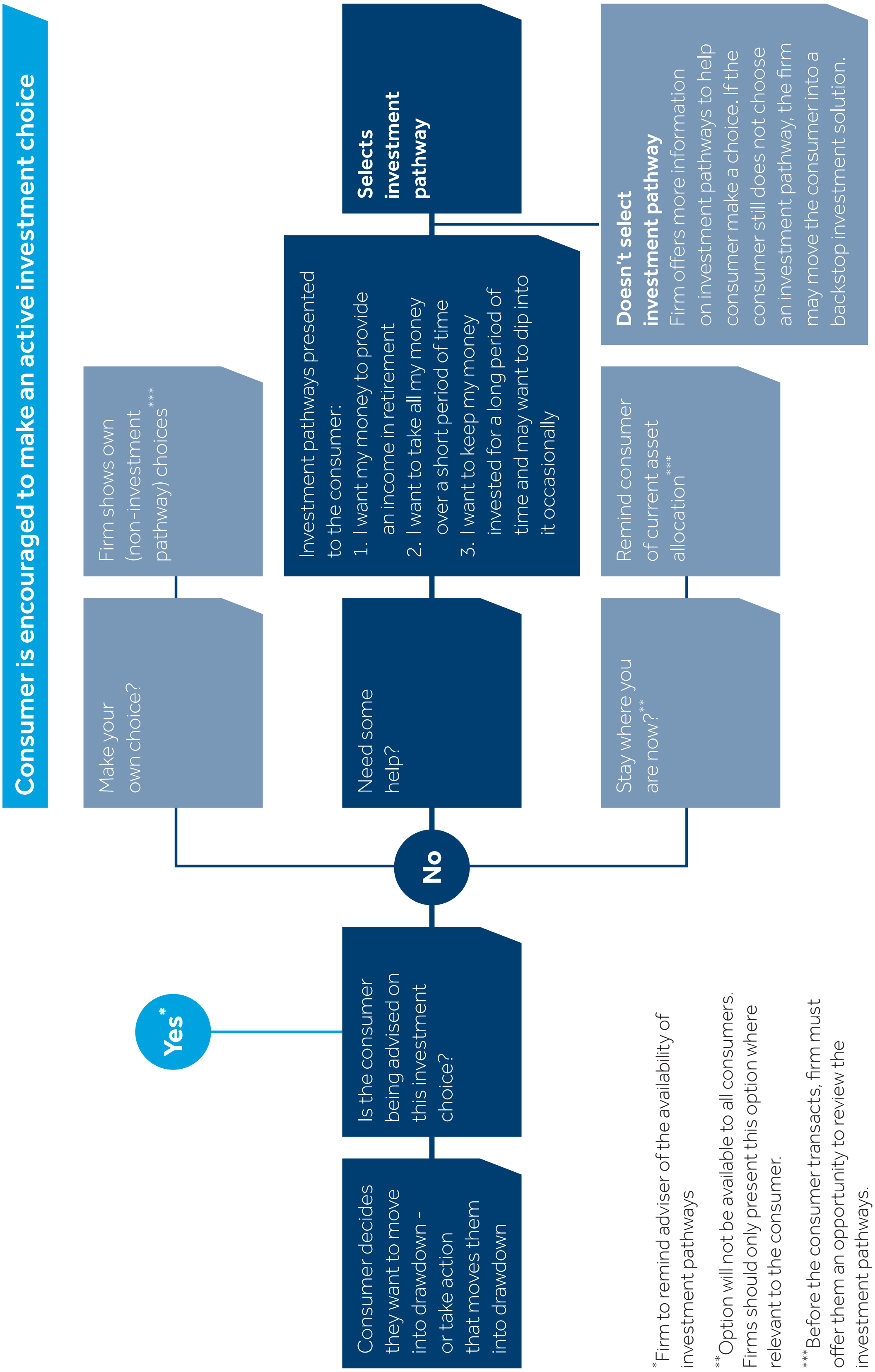
6.33 In line with the push towards greater transparency around fees and charges (of which MiFID II is part), we believe that the information set out in the KFI should be followed up each year by information on the actual charges levied on pension pots. The charges figure should include any charge that has been levied against the consumer's pension pot in the previous year, including transaction costs. This information should be provided prominently to consumers annually and presented in pounds and pence to help consumer understanding and engagement.

Q47: **Do you agree that consumers should receive information on actual charges paid expressed as a cash amount?**

Q48: **How do you consider this would best be achieved by firms?**

Q49: **What would you estimate to be the cost of these changes?**

Annex 1
Investment pathways: Consumer journey



*Firm to remind adviser of the availability of investment pathways

**Option will not be available to all consumers. Firms should only present this option where relevant to the consumer.

***Before the consumer transacts, firm must offer them an opportunity to review the investment pathways.

Annex 2
KFI key information summary (example)

Assumption: Based on an investment of £80,000

Summary information	
Term length	Stop date/end of term
Tax free cash	£20,000
Amount remaining for drawdown investment	£60,000
Withdrawals Regular One off	 £350 a month £0
What your fund value might be worth Based on any withdrawals assumed above and that your investments grow at 2.5% a year above inflation At the end of year 5 your plan might be worth At the end of year 10 your plan might be worth Based on the above assumption your fund will be reduced to zero during the year stated here For more detail, see the 'income drawdown – here's what you might get' section, page x	 £43,700 £25,900 Year 17
How charges can reduce the growth rate over the term of your plan Reduction in yield For more detail, see 'how charges can affect your plan', page x	 0.7% (or put another way, if your fund grew by 2.5% above inflation a year, this would only be 1.8% after charges)
Comparison information For comparison purposes the one year charge figure is: For more detail, see 'how charges can affect your plan', page x	 £378

Annex 3
Questions in this paper

Chapter 3 – Protecting Consumers from Poor Outcomes

Proposals for discussion – respond by 9 August:

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?**

Q3: **Do you agree with our suggestion that firms should only offer 1 investment solution in respect of each of the objectives? If not, what would you suggest?**

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?**

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?**

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?**

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?**

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?**

Q13: **Do you agree with the approach we are considering taking to require firm review of investment pathways on an annual basis? 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?**

Q15: **Do you agree that we should apply our remedies to the whole of the non-advised drawdown market, including SIPP operators serving this market? What would be the costs and how would the market respond?**

Q16: **Do you think we should consider carving out from our remedies those SIPP operators focused on advised consumers and sophisticated investors? If so, how do you think we should do this? Should we consider an alternative proportionate solution?**

Q17: **Do you think that we should limit the scope of application of our rules on the investment pathways? What would be the impact on the SIPP market if we don't limit the scope?**

Q18: **What would be the costs and challenges of the different options set out? Are some more likely than others to distort the market? Are there ways to mitigate the impact of this?**

Q19: **Would SIPP operators be able to demonstrate that their consumers are advised and/or sophisticated/high net worth investors?**

Q20: **How might an appropriateness test work in practice?**

Q21: **Should we not apply the remedy to non-advised consumers who have self-selected an investment strategy even though these consumers might benefit?**

Q22: **Should we instead not require firms with small numbers of non-advised consumers to offer investment solutions for any of the investment pathways, but require them to refer consumers directly to another provider for investment pathways?**

Q23: **Do you agree that the IGC regime should be extended to investment pathways? If not, what alternative regime would you propose?**

Q24: **Do you consider that a requirement for independent oversight should apply to other decumulation products (ie not only to investment pathways)? If so, why?**

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?**

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.**

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?**

Q30: **If relevant to you, what have you done – or what do you plan to do – about your current drawdown consumers who have already been 'defaulted' into cash until now, but who are unlikely to be best served by this investment strategy for the remainder of their retirement?**

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?**

Q32: **Do you agree with the approach we are considering taking in relation to a minimum limit and the cooling-off period? What minimal limit would you suggest? If you do not agree with the approach we are considering taking, what would you suggest?**

Q33: **What impact do you think our proposals on preventing 'defaulting' into cash would have on the business models of SIPP operators? Do you think this change would be appropriate?**

Chapter 4 – Improving consumer engagement with retirement decisions: 'Wake up' packs, retirement risk warnings and reminders
Proposals for consultation – respond by 6 September:

Q34: **Do you agree with our proposals on 'wake-up' packs? If not, how should we change them?**

Q35: **Do you agree with our proposal to mandate specific retirement risk warnings alongside 'wake-up' packs? If not, how should we change it?**

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

Q37: **Do you have any comments on our proposals for the reminder?**

Chapter 5 – Improving consumer engagement with retirement decisions: 'Wake up' packs, retirement risk warnings and reminders
Proposals for consultation – respond by 6 September:

Q38: **Do you agree with our proposal to require firms to ask consumers questions that will help a consumer determine whether he or she is entitled to an enhanced annuity?**

Q39: **Do you agree with our proposal to require that firms include information about the consumer's potential eligibility for an enhanced annuity in the quote for comparison?**

Q40: **Do you agree with our proposal for amending the annuity information prompt requirements for income driven quotes? If not, how would you suggest we amend the information prompt to achieve our policy objective?**

Chapter 6 – promoting competition by making the cost of drawdown products clearer and comparisons easier
Proposals for consultation – respond by 6 September:

Q41: **Do you agree that key information should be summarised on the front page of KFIs?**

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

Q43: **Do you agree that information in KFIs should be presented in real terms (that takes account of inflation)?**

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)?**

Q45: **Do you agree that firms should provide regular client communications for those who have withdrawn tax free cash but not taken an income?**

Q46: **Do you agree that firms should regularly remind consumers to consider reviewing their decisions, particularly investment choices, rather than reminding them how to obtain advice?**

Proposals for discussion – respond by 9 August:

Q47: **Do you agree that consumers should receive information on actual charges paid expressed as a cash amount?**

Q48: **How do you consider this would best be achieved by firms?**

Q49: **What would you estimate to be the cost of these changes?**

Annex 4
Cost benefit analysis

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of the proposals on which we are consulting. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

3. Some of the figures in the CBA have been rounded to the nearest £1,000, £10,000, or £100,000.

4. We estimate that there will be familiarisation costs for firms to read and familiarise themselves with the consultation and policy statements and to review the legal requirements. We estimate that the industry cost for this will be approximately £300,000 (including costs of around £11,000 for large firms, £3,000 for medium firms and £1,000 for small firms).

Market failure analysis

5. Differences in information and behavioural issues hamper consumers' ability to choose financial services products in line with their needs and to shop around to seek the best offers in the market to meet their needs.

6. The FCA's Retirement Income Market Study[84] highlighted the low level of shopping around by consumers for pension products. Drawdown products can be hard to compare, as information on charges and investment strategies is difficult to access and process for the average consumer.

7. Those providers with a strong consumer base in accumulation may have limited incentives to make information on charges and quality of drawdown products more accessible to consumers, who would then be empowered to compare with alternative offers.

84 www.fca.org.uk/publication/market-studies/ms14-03-3.pdf

8. Inertia, present bias, limited attention, aversion to ambiguity and framing of choices by accumulation providers exacerbate the impacts of asymmetric information and complexity. Pension freedoms have resulted in more choice and more complex products to choose from.

9. As a consequence, consumers are at danger of suffering harm in terms of:

- buying unsuitable products, for instance when investment strategies are not aligned with their long-term objectives
- unmet needs, in particular when products and choices do not provide safe income and longevity insurance
- high charges and/or lower quality of products, when consumers do not shop around and, in turn, firms have limited incentives to compete on quality and price
- deterioration in consumers' confidence in pension products and providers, in turn leading to consumer disengagement and unmet needs.

Chapter 4: Improving consumer engagement with retirement income decisions: 'Wake-up' packs, retirement risk warnings and reminders

Introduction

10. Our proposals for revising COBS 19.4 aim to improve the effectiveness of communications to consumers on their journey towards retirement. Our proposals do not look to introduce completely new information requirements. Rather, they intend to give existing disclosures more impact.

11. Currently, 'wake-up' packs can be lengthy documents, which can adversely affect the level of consumer engagement with their options to access their pension savings.

12. We propose to:

- introduce additional trigger points for 'wake-up' packs to include a pack at age 50, age 54 and then every 5 years until consumers have fully crystallised their pension pot
- introduce a single page summary document into the 'wake-up' pack
- strengthen the messaging in the reminder to encourage consumers to access pensions guidance
- prevent firms from including marketing material alongside the 'wake-up' pack and reminder information
- introduce additional generic risk warnings alongside 'wake-up' packs

13. Our proposals will affect around 180 firms with the permission to establish, operate and wind-up personal pension schemes and/or stakeholder pension schemes. There are 10 firms with over 500,000 policyholders, 12 firms with between 50,000 and 500,000 policy holders and around 160 firms with fewer than 50,000 policyholders.

14. We estimate that there are approximately 25m DC pension plan holders. There are over 6m relating to untouched and partially crystallised plans for consumers aged 55 or above and 19m relating to pension plans for consumers aged under 55. Our proposals will result in approximately 2.3m additional 'wake-up' packs to be issued every year, estimated to include 1.3m for consumers over the age of 55, and a further 1.0m for consumers aged 50 and 54.

Costs

Introduction

15. The proposed changes will result in one-off IT system changes costs and ongoing costs of sending out additional 'wake-up' packs (including additional risk warnings). In addition, we expect there to be more follow up questions from consumers, because of the higher number of 'wake-up' packs being sent and improved consumer engagement with the information contained therein. There will be additional costs to the organisation providing pensions guidance in more face-to-face and telephone appointments.

16. Pension firms have systems in place to produce KFI projections and other information such as 'wake-up' packs, risk warnings and reminders to consumers. The Financial Services Authority's 2006 survey on 'Compliance costs of proposed changes to the investment product disclosure regime'[85] identified potential industry costs for a range of investment product disclosures. The most comparable options in the 2006 survey to our proposals are:

	Average one-off costs per company (2006) £'000		
Comparable options from the FSA's 2006 survey	Small firm	Medium firm	Large firm
Adding extra paragraph to illustration	1.3	66	512
Adding key facts logo to illustrations	1.6	48	858

One-off costs

17. We used evidence gathered from our retirement income market data[86] to help identify whether firms were small, medium or large. We applied the combined cost of 'adding an extra paragraph and a key facts logo' as a proxy for our proposed changes to the 'wake-up' pack, risk warnings and reminder letter. Taking these together and using the Consumer Price Index (CPI) to inflate the costs into today's terms we expect the one-off system costs to be £19.8m.[87] However, including the costs of both adding additional paragraphs and a key facts logo to illustrations may include some duplicated costs. We believe that changes to the 'wake-up' pack are less complicated and costly for firms to implement compared to changes to KFI information. We consider that the cost estimate of £19.8m could overstate the potential costs.

Ongoing costs

18. In addition to the one-off system costs there will be the ongoing cost of sending out an additional 2.2m 'wake-up' packs and risk warnings to consumers. Using an assumption that 50% of these 'wake-up' packs will be sent out electronically at no ongoing cost and the postal cost being £1 per pack, this results in an ongoing cost of £1.1m per

85 November 2006, Compliance costs of proposed changes to the investment product disclosure regime (www.fsa.gov.uk/pubs/consumer-research/compliance_costs.pdf)

86 www.fca.org.uk/publication/data/data-bulletin-issue-12.pdf

87 Small firms costs estimated at £625,995 (163 firms x £3,840), medium firms £1,056,790 (7 x £150,970) and large firms £18,142,850 (10 x £1,814,285). This reflects the figures in the table at paragraph 16, inflated using the CPI index.

annum. We expect that the additional 'wake-up' packs will generate additional contacts to firms from consumers receiving the 'wake-up' packs. If the number of contacts increases by around 3% this will result in about 70,000 additional contacts which could cost firms around £350,000 per annum (being 15 minute call x £20 per hour cost x 70,000 contacts).

19. One of the intended outcomes for our consumer engagement disclosure proposals is to increase the take-up of pensions guidance from Pension Wise. This will result in additional costs of providing pensions guidance. Government data show that in January 2018 the average cost per transaction (including face-to-face, telephone and digital appointments) was £152 (although an increase in the volume of transactions may be at a lower cost as the cost per transaction of £152 includes all fixed and variable costs[88]). Applying this cost to the expected additional 15,000 to 20,000 increase in pensions guidance transactions gives a cost of between £2.3m and £3.0m.

Benefits

Improved consumer engagement in decisions to access pension savings

20. Our proposals should improve consumer engagement with information contained in the 'wake-up' pack, resulting in consumers making more informed decisions, including about when to access pension savings. We expect this to include an increased take-up of pensions guidance and improved pension product selection, with more consumers purchasing products that are better suited to their needs.

Trials to test the impact of 'wake-up' pack on Pension Wise take up

21. As set out in Chapter 4, the evidence from the HM Treasury trial on streamlining the 'wake- up' pack to a single page document had a significant impact on the take-up of guidance from Pension Wise with visits to the Pension Wise website increasing by 9.8 percentage points and calls to Pension Wise increasing by 3.5 percentage points. Our Occasional Paper on experimental evidence on improving retirement communications found that sending a 'wake-up' pack reminder (comprising a 'signpost, appointment box and statement that appointments are available' for Pension Wise – as shown in paragraph 4.40 above) 4 weeks after the 'wake-up' pack increased calls to Pension Wise by 4 percentage points more than a reminder which simply included a 'signpost' to Pension Wise.[89]

22. Based on this, we assume that there will be between 3 percentage points and 4 percentage points' increase in the number of consumers shopping around or seeking pensions guidance to help them make an informed decision about their options for accessing pension savings. These options will include annuities, drawdown and cash withdrawals. In the year ended 30 September 2017, 594,339[90] pension pots were accessed for the first time (with approximately 12% relating to annuity purchases). The corresponding number for 2016 was 556,964, and we expect the number of pension pots accessed for the first time to be in excess of 500,000 for a number of years. If an additional 3% to 4% of consumers seek pensions guidance and shop around this could generate an additional 15,000 to 20,000 appointments per annum.

Impact of increased engagement – annuities

23. In our thematic review of annuities (TR14/2[91]) we found that the benefits of shopping around were £1,497 for an average pension pot of £17,700. We believe that this

88 The latest data on pensions guidance can be found at www.gov.uk/performance/pension-wise
89 Occasional Paper 38
90 www.fca.org.uk/publications/data/data-bulletin-issue-12 (Retirement Income Data Collection – table 1)
91 www.fca.org.uk/publication/thematic-reviews/tr14-02.pdf

amount, adjusted for the CPI to £1,571, can be used as a conservative estimate of the benefits of shopping around for consumers purchasing annuities. This is because DC pension pot sizes are increasing and it is likely that annuity income will increase accordingly. In TR14/2 the average pot size was calculated as £17,700. In the Interim Report[92] we estimated that the median pot size would increase from £25,749 in 2016 to £39,450 in 2026.

24. Applying potential benefits of £1,571 to the expected 2,100 to 2,800[93] increase in the number of annuity consumers shopping around will generate between £3.3m and £4.4m of benefits for annuity consumers each year and corresponding lower profits for firms. These estimates are subject to the uncertainties inherent in behavioural responses by consumers and firms, as well as in the evolution of open market rates.

Impact of increased engagement – drawdown

25. For drawdown, consumers shopping around may be able to achieve lower drawdown charges, better investment performance and a more suitable investment strategy for their objectives. The benefits of shopping around for drawdown and improved decision making may be higher or lower than the estimate for annuities, but we do not consider that it is reasonably practicable to quantify the benefits. However, with an expected increase in pensions guidance appointments of 15,000 to 20,000 (even accounting for the 2,100 to 2,800 relating to annuities) we expect the benefits to be significant. Improvements in 'wake-up' packs are likely to reinforce the benefits from our proposed changes to charges disclosure.

Wider benefits

26. The increased number of consumers shopping around could increase commercial incentives for firms, including challenger firms, to create innovative products, which may be at a lower cost than current pension products. This could improve competition more widely.

27. In addition to the take-up of pensions guidance and shopping around we expect that the proposed changes to the 'wake-up' pack will encourage earlier and more informed engagement from consumers about both the sufficiency of their pension savings and when an appropriate time might be for them to access their pension savings. This could result in better savings strategies for pensions during the accumulation phase from age 50 onwards.

92 www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf (page 29)
93 Being approximately 70,000 annuity sales x 3% or 4%.

Summary of expected costs and benefits

28. The following table sets out a summary of the expected costs and benefits across the market:

		One-off £'m	Ongoing (annual) £'m
Costs	System changes	19.8	–
	Sending out 'wake-up' packs (including risk warnings)	–	1.1
	Additional firm consumer contacts	–	0.4
	Increase in pensions guidance transactions	–	2.3 to 3.0
	Decrease in profits from consumers increased shopping around for annuities		3.3 to 4.4
	Total	19.8	7.1 to 8.9
Benefits	Better purchases resulting from increased shopping around (annuity customers)	–	3.3 to 4.4
	Increased shopping around for non-annuity consumers	–	Not quantified
	Wider benefits from improving competition (for example through efficiency improvements)	–	Not quantified
	Total	–	Not quantified

Chapter 5: Improving consumer engagement with retirement income decisions: Annuity information prompt – eligibility to purchase an enhanced annuity

Introduction

29. Our proposals for revising the annuity information prompt (COBS 19.9) are intended to provide more meaningful comparisons for consumers who may be eligible for enhanced annuities but who may purchase standard annuities from their existing provider.

30. We propose to:

- require firms to ask consumers who express an interest in purchasing an annuity, questions to determine whether they are potentially eligible to purchase an enhanced annuity
- require firms to use the enhanced annuity information, where relevant, to generate a market-leading annuity quote
- amend the information requirements in the annuity comparison template to remove the additional narrative referring to enhanced annuities
- amend the information requirements in the annuity comparison template for income-driven annuity quotes including reversing the information for the net annuity purchase amount and annual income

31. Under our existing rules consumers who are eligible for an enhanced annuity, but ask for a quote from an existing provider that only sells standard annuities, will be less likely to switch having received the information prompt. This is because any differential shown on the information prompt disclosure is likely to be lower than it would have been had the firm been required to disclose the market leading quote based on enhanced annuity eligibility. In the same circumstances, our proposals will make sure consumers receive clear comparison information including an enhanced annuity comparison quote. This will provide a clear and simple tool for the consumer to illustrate the potential income they could get if they opted for an enhanced annuity on the open market.

32. While there are around 15 firms with substantial sales in the annuity market these proposals will primarily affect 7 providers that sell standard annuities, but not enhanced annuities.

33. The number of annuity sales has declined significantly following the introduction of the pension freedoms in 2015. In 2012 there were 420,000 annuities sales, and in the years ended 30 September 2016 and 30 September 2017 the number of annuity sales fell to 82,391 and 70,452,[94] respectively. However, it may be the case that as DC pension pots increase in size, annuity sales increase from their current level. This is because annuity sales typically account for a higher proportion of sales for pension pots between £30,000 and £250,000.[95] Of the annuity sales since October 2015, 57%[96] are sales to existing consumers, and 95% of these sales to existing consumers are expected to be standard annuities.[97] In TR16/7[98] we estimated that approximately 39% to 48% of consumers who bought a standard annuity from their current pension provider may have had qualifying health or lifestyle conditions which would have made them eligible for an enhanced annuity. We expect the number of consumers to be potentially affected by our proposals to be between 14,026 and 17,263. This is calculated as follows:

	Number of consumers
Number of annuity sales year ended 30 September 2017	70,452
Less	
Number of sales to new consumers or through third parties	(32,595)
Sales to existing consumers which are expected to be enhanced annuities (5%)	(1,893)
Estimated number of annual sales of standard annuities to existing consumers	35,964
	x 39% to 48%
Estimated number of consumers purchasing standard annuities from existing providers who may be eligible for enhanced annuities (39% to 48%) and are most likely to benefit from our proposals	14,026 to 17,263

Costs

34. The costs will primarily impact on the 7 firms who sell standard annuities only. Firms that sell both standard and enhanced annuities should already be establishing whether consumers are eligible for enhanced annuities.

35. The main one-off costs are system costs to make sure that additional information about enhanced annuity eligibility is captured and system costs to retrieve personalised quotes from the open market. In addition to these there will be costs

94 www.fca.org.uk/publications/data/data-bulletin-issue-12 (table 1)
95 www.fca.org.uk/publications/data/data-bulletin-issue-12 (table 2 and table 16)
96 www.fca.org.uk/publications/data/data-bulletin-issue-12 (page 19)
97 www.fca.org.uk/publication/thematic-reviews/tr14-02.pdf (page 22)
98 www.fca.org.uk/publication/thematic-reviews/tr16-7.pdf (page 9)

for firms selling annuities to remove the additional narrative referring to enhanced annuities. This narrative, as we set out in Chapter 5, is unlikely to help consumers make a more informed decision.

36. The 7 firms selling standard annuities will need to introduce system changes to make sure that the additional information about enhanced annuity eligibility is captured and appropriately protected and staff training designed and rolled out. We estimate that the cost of this could be up to £200,000 per firm, depending on the size of the firm and complexity of IT systems, resulting in an overall cost of approximately £1,400,000. We estimate that for large firms the IT system costs would include approximately 500 working days (including design, programming, management and testing) at an average daily cost of £350 (equating to £175,000). In addition, we assume that there could be costs up to £25,000 per firm designing and rolling out the appropriate training to sales staff.

37. In CP16/37 we estimated that for the proposed information prompt requirements systems would need to be amended to retrieve personalised quotes from the open market, and we estimated that the cost would be approximately £112,000 per firm. For our proposals in this CP, the systems for firms who only offer standard annuities will need to be amended to facilitate the capture of quotes for enhanced annuities where applicable. As firms should already have systems in place to retrieve quotes we expect the costs to be lower than the £112,000 estimated in CP16/37. We assume costs of approximately £60,000 per firm for the 7 firms offering standard annuities only resulting in a total cost of £420,000 (being £60,000 x 7).

38. We do not believe that the proposal to remove reference to enhanced annuities from the information prompt template will generate significant costs for most firms. We assume that the potential one-off cost of amending the template would cost around £30,000 for each of the 15 firms selling annuities, resulting in a potential total cost of £450,000 (being £30,000 x 15 firms).

39. In addition to the one-off costs there will be ongoing costs, including the time and staff resource required to work out whether a consumer is eligible for an enhanced annuity and the increase in third-party subscription costs to enable them to capture enhanced annuity market information to provide a market-leading comparison quote. We have proposed guidance that sets out that firms can use the facility on the MAS website to generate the market-leading comparison quote, including for enhanced annuities. Using the MAS enhanced annuity eligibility quote software as a proxy for firms to go through their own process, we estimate that it could take approximately 15 to 25 minutes to run through the questions and input the responses onto the system to generate the market-leading comparison. Based on a rate of £20 per hour this could increase costs by around £7 per quote for the 7 firms that only sell standard annuities. Applying this cost to the number of annuity sales of standard annuities to existing consumers of 36,000 gives a total cost of approximately £250,000. The number of affected sales may be less than the 36,000 identified here as this number will include annuity sales by firms that offer enhanced annuities, but where the consumer is not eligible for an enhanced annuity.

40. Some firms use quote comparison software to retrieve market quote information. For firms that use third party software for this purpose we expect that the subscription costs will increase for firms selling standard annuities. In CP16/37 we estimated that the subscription costs would be approximately £21,000. We estimate that the ongoing subscription costs will be approximately £10,000 higher than the existing subscription costs. This would result in a total cost of £70,000.

Benefits

41. We expect our proposals will increase the number of consumers switching or shopping around for enhanced annuities. We expect this will result in improved annuity quote offers from providers.

42. In our consultation on implementing information prompts in the annuity market (CP16/37), our research found that the information prompt increased switching by 18% points from 7% to 25% and increased shopping around from 13% to 40%.[99] In CP16/37 we calculated our benefits for the CBA on a conservative estimate; that our intervention would result in a 5% increase in switching.

43. We believe that our proposals for enhanced annuity information prompt disclosure will increase switching for affected consumers by 5% over and above the increase estimated in CP16/37. This is because our proposed information requirements will, for affected consumers, provide a more meaningful comparison. It will show a potentially higher uplift as the comparison would be between a firm's own standard annuity rate and the market-leading enhanced annuity rate. This could result in increased switching. The increased switching impact of our proposals may be most significant where a firm's standard annuity rate is above or close to the market-leading standard annuity rate, where, under our existing rules, consumers may be discouraged from shopping around or switching. Applying the 5% expected increase in switching to the estimated population of 14,000 to 17,000 affected consumers could increase switching by between 700 and 850 consumers each year.

44. In TR14/2 we estimated that, on average, annuitants who purchased their enhanced annuity from their existing provider would need £2,428 (adjusted for CPI to £2,549) of additional pension savings to purchase from their existing pension provider the income available on the open market. While we expect our proposals to have the largest impact on consumers purchasing standard annuities from their existing provider (but who are eligible for enhanced annuities) we consider that the £2,549 is a conservative proxy for the potential benefit per switching consumer. As noted above, the average size of pension pots is increasing which will increase the benefits of shopping around. In addition, the income uplift from 'standard annuity with existing provider' to 'enhanced annuity after shopping around/ switching' is expected to be higher than the uplift in TR14/2, which is from 'enhanced annuity with existing provider' to 'enhanced annuity after shopping around/ switching'

45. Applying the £2,549 consumer benefit to the expected switching consumers (700 to 850) equates to a potential overall consumer benefit of between £1.8m and £2.2m per annum. Conversely, firms would pay higher annuity rates, of an amount corresponding to the consumer benefit.

46. We also note potential benefits beyond the pure benefits transferring from firms to consumers mentioned above. Consumers eligible for enhanced annuities will be in a better position to consider buying annuities and better match their choice to their needs, in particular for longevity insurance.

99 www.fca.org.uk/publication/consultation/cp16-37.pdf (page 26)

Summary of expected costs and benefits

47. The following table sets out a summary of the expected costs and benefits:

		One-off £'m	Ongoing (annual) £'m
Costs	System changes to ensure eligibility information can be captured and protected	1.4	–
	System retrieving personal quotes updated	0.4	–
	Amending the information prompt template	0.5	–
	Cost of determining eligibility for enhanced annuities	–	0.3
	Increase in subscription costs	–	0.1
	Decrease in profits from consumers shopping around for annuities	–	1.8 to 2.2
	Total	2.3	2.2 to 2.6
Benefits	Better purchases resulting from increased shopping around	–	1.8 to 2.2

Chapter 5: Improving consumer engagement with retirement income decisions: Annuity information prompt – income-driven annuity quotes

Introduction

48. Our proposed changes include reversing the information disclosed for income and the net annuity purchase amount in the information prompt for income-driven quotes. This proposal will affect a low number of providers who provide, or are planning to provide, these types of quotes. Where consumers have asked for an income-driven quote, the disclosure of the existing information prompt will not help consumers in their decision making. This is because the comparison tool on the existing information prompt compares the annual income between quotes, and for income-driven quotes these will be identical.

Costs

49. The costs will depend on the number of firms who issue income-driven annuity quotes and the number of income-driven annuity quotes that they issue. We do not know the exact number of firms that will be affected by this change. We are aware that at least one firm undertakes income-driven quotes. We expect that the main cost will be the one-off cost to amend the information prompt template which we assume to be up to £30,000 per affected firm, as the lay-out of the proposed quote information will not change, but rather certain information will be reversed.

Benefits

50. We believe that the benefits of our proposed changes will be comparable in nature to the information prompt benefits outlined in CP16/37 and will increase switching by approximately 5%. Whilst we do not have an estimate of the number of additional consumers that will switch, where consumers do switch we estimate the benefit as being £1,497 as set out in TR14/2 (or £1,571 adjusted for CPI) per switching consumer.

Chapter 6: Promoting competition by making the cost of drawdown products clearer and comparisons easier

Introduction

51. 37% of consumers are choosing to enter drawdown on a non-advised basis. Consumer understanding of information supplied by providers is therefore important to help consumers choose the products and options that best meet their needs.

52. Firms are not currently required to make sure consumers always have access to charges information in all instances. When firms do provide charges information to consumers, it is not always in a format that allows them to easily engage with it. Our research shows the benefits of less information presented in an engaging way. For example, charges presented to consumers in a pounds and pence format is shown to improvement engagement.[100]

53. In addition, our research shows very low levels of shopping around and data from the Association of British Insurers (ABI) indicates that 94% of non-advised sales were made to existing consumers.[101] This suggests limited competitive pressure on firms to offer good deals. To help consumers shop around and promote competition between firms we propose to make charges information for drawdown products clearer and more comparable.

54. Greater access to charges information and clearer and more concise presentation should increase consumer engagement and help consumers get a better deal. Incorporating a charge that consumers can engage with can also be used for the introduction of pathways[102] and as a basis for any future comparator tool. In future, having consistent charging information along the consumer journey and the use of comparator tool may further strengthen the demand side to facilitate shopping around. This will put down pressure on the market pricing and provide benefits across the market, even for those consumers who do not shop around.

55. Our proposals for amending COBS 13, 14 and 16 aim to make the costs of drawdown products clearer and more comparable, by amending current disclosures to present charges in a way that is more engaging. We also want to make sure all drawdown consumers have access to charges information through firm disclosures which is currently not always the case. This should promote competition and increase downward pressure on firms' charges, and help consumers get a better deal.

56. Our proposals broadly build on our current information requirements. We propose to:

- Require the content of a KFI:
  - includes key front page summary information
  - within the summary, includes a one-year single charge figure in pounds and pence
  - presents information in today's money ('real' terms) rather than nominal terms

100 See Chapter 6, above
101 FCA analysis of ABI data, April 2015 – March 2017. Based on the analysis conducted for the Interim Report. See Figure 5 and Annex 2 of the Interim Report.
102 See Chapter 3, above

  - is provided to a consumer using an existing contract to move funds into drawdown or take an income for the first time, including an uncrystallised funds pension lump sum (UFPLS) payment.

- Require the content of annual communications:
  - replaces the advice wording with text on reviewing decisions and investments
  - is provided to consumers who have not taken an income

These proposals are predominantly aimed at helping non-advised consumers, but we consider that advised consumers will also benefit from clearer information. Not including a distinction between advised and non-advised information is beneficial in reducing costs for firms because the same information can be used regardless of distribution channel. In addition, this approach avoids creating a distortion between advised and non-advised channels.

Costs

57. We have used the compliance costs of proposed changes to the investment product disclosure regime (June 2006) as the basis for our cost calculations.[103] In many areas these costs closely align to those that firms may encounter when changing IT systems to meet the requirements of these disclosure proposals. We have used the CPI to inflate the costs to today's terms.

58. The compliance costs data categorised firms into small, medium and large life offices. The size of the drawdown market is relatively small compared to the life market and most firms would be categorised as small in terms of their assets under management. However, some firms in the drawdown market are large insurers. To better reflect this market we have categorised 37 firms as small and 7 as medium. In addition, this helps to recognise that the cost of information changes for large firms is often higher due to multiple IT systems, some of which may be older/legacy systems which may involve higher cost implications.

Amendments to the KFI – One-off costs: KFI front page summary information and inclusion of a charge figure in pound and pence

59. We are proposing that firms will be required to show key information on the front page of the KFI. Firms will also be required to include a one-year single charge figure, derived from the 'effect of charges' table, in the summary information on the front page of the KFI. Firms may need to make adjustments to the calculation of this figure for use on the summary page if they provide discounts to these charges. Figures in our 2006 compliance cost survey suggest that to deliver KFIs in a different format would produce an industry total cost of £143,000 across all small firms and £2.7m across all medium firms.

Amendments to the KFI – One-off costs: KFIs presented in today's money ('real' terms) rather than nominal terms

60. At present firms can provide a KFI in nominal or real terms. We propose firms change the KFI calculations to real terms to provide consistency for consumer understanding. Firms will need to amend their IT systems to change the basis of the calculations used in the KFI if they are not currently producing real terms KFIs. We estimate the

103 Compliance costs of proposed changes to the investment product disclosure regime – www.fsa.gov.uk/pubs/consumer-research/compliance_costs.pdf (November 2006). This information was also used in 2016 when considering costs to implement information prompts in the annuity market (CP16/37).

costs of these changes to be fairly significant for those firms involved. Based on the Compliance Cost survey 2006 we estimate changing systems to allow this would represent industry costs of £382,000 for small firms and £6.4m for medium firms. We have limited evidence on firms' use of nominal versus real terms KFIs. So, we have based costs on a lower estimate scenario of 20% of firms currently producing nominal KFIs to an upper estimate of 80% of firms producing nominal KFIs. On that basis the industry costs to small firms would be £76,000 to £305,000 and medium sized firms £1.3m to £5.1m.

Amendments to the KFI – One-off costs: Provide a KFI when moving funds into drawdown and taking an income for the first time

61. Firms may need to adapt information in the KFI to use this in circumstances where consumers are using an existing contract to move into drawdown and take an income. There may be circumstances where a standard KFI does not accurately represent the option or variation the consumer has made. We believe the cost of the changes will be similar to those for creating the KFI summary. However, in addition, firms will need to make adjustments to their systems to trigger the production of a KFI in the circumstances we describe in Chapter 6. Using the compliance cost of proposed changes to the investment product disclosure regime (June 2006) we believe the total industry costs to be £213,000 for small firms and £4.1m for medium sized firms.

Amendments to the KFI – Ongoing costs

62. The impact of ongoing costs is minimal as much of the cost for firms is upfront in changing their systems on a one off basis.

63. However, where firms are required to send a KFI instead of a variation document to consumers there may be a minimal cost increase to firms. Firms would have to provide information to consumers in the current circumstances but some firms, depending on their current approach to variations, might find a KFI document contains more pages which would have impact on costs.

Communications to clients – One-off costs: Changing the advice wording in annual information

64. Firms will be required to amend a paragraph of wording used within this information that prompts consumers to consider obtaining advice on investments. Using the compliance cost of proposed changes to the investment product disclosure regime (June 2006) the total industry costs are estimated at £22,000 for small firms and £264,000 for medium sized firms.

Communications to clients – One-off costs: Require firms to provide annual communications for consumers who have not taken an income

65. Our proposals mean firms would be required to send annual communications to all drawdown consumers, not just those who have elected to take an income. Firms may need to make some amendments to make sure their template is relevant for these consumers. We estimate these costs to be minimal because firms will already have the processes in place to provide annual statements, as they have to be provided to consumers taking a drawdown income.

Communications to clients – Ongoing costs

66. Firms will be required to provide information to all drawdown consumers which is a wider audience than our current requirements. This will increase firms' ongoing costs. We have estimated the amount of consumers affected from ROR firm data. Similar to 'wake-up' packs we estimate the cost of producing and sending the information equates to £1 per consumer.

Scope of cost impact

67. Our proposals will affect all firms in the drawdown market. We have identified 44 firms in the drawdown market. 7 large insurers have provided 50% of sales since the pension freedoms. 4 medium sized insurers have similar offerings to the large providers but have smaller books of existing accumulation consumers. 8 firms are SIPP providers offering advised and non-advised propositions with the remaining 25 firms having a very small share of the new business market.

68. To comply with our proposals, firms will need to make changes to their IT systems to produce information in the proposed format. Most of the changes will involve upfront costs as they will apply to current templates. In some cases we are asking firms to provide information to a wider set of consumers, which will create some ongoing costs. We estimate the total up-front industry costs of these changes for small firms to be £454,000 to £683,000 and £8.3m to £12.1m for medium firms. We estimate the total ongoing total industry costs for small firms to be £19,000 and £114,000 for medium firms.

Benefits

69. At present the drawdown market is relatively small. However, the market is developing since the introduction of pension freedoms. Introducing a charge figure in pounds and pence at this relatively early stage should help address the concern that charges in this sector are complex and unclear and prevent harm arising before it impacts a larger segment of the decumulation market.

70. Our proposals to make sure consumers have access to charge information in all instances when accessing drawdown should increase the population of consumers able to engage with and compare charges information. Using pounds and pence has been shown to improve consumer understanding across our Oxera research and previous FSA research.

71. Consumers who are aware of charges they are paying should help to promote competition in this market and start to exert downward pressure on firms' charges. Using a pounds and pence single charge metric in firm information will lay the foundations for a prominently used single charge for use in a future comparator tool.

72. The price variation we identified in our Final Report shows the potential for other benefits, such as the savings that could be made by consumers. Nearly a quarter of non-advised consumers are paying 1.5% or more of their pots in charges every year. Engaging with charges and moving to a better deal could result in a larger pension pot.

73. Our data analysis on the charges imposed by a subset of providers, covering approximately 60% of the market, indicates potential savings of around £6.8m per year.[104] These savings would be realised if all consumers chose the cheapest provider for the size of their pots.

104 Total charges vary substantially across providers with average total charges range ranging from 0.4% to 1.6%. By switching from a higher cost provider to a lower cost provider, consumers captured in our data analysis (about 60% of the market) could have collectively saved £6.8m per annum in charges. This is based on the weighted average size of funds under management and takes into account the different levels of charges applying to different fund sizes.

74. Clear information should provide a much stronger contribution to shopping around and switching after the future introduction of a comparator, which would make it easier to find the best deal. Looking over a longer period where we expect the use of drawdown to increase significantly the benefits could be further increased.

Summary of expected costs[105] and benefits

75. The following table sets out a summary of the expected costs and benefits:

		One-off £		Ongoing (annual) £	
		Small firms	Medium firms	Small firms	Medium firms
Costs	KFI front page summary and inclusion of £ and pence figure	143k	£2.7m	0	0
	KFIs calculated on a 'real' terms instead of 'nominal' terms	76k-305k	1.3m-5.1m	0	0
	Provision of a KFI for existing contracts	213k	4.1m	Minimal	Minimal
	Replace advice wording in annual statement	22k	264k	0	0
	Require annual communications for all consumers	Minimal	Minimal	19k	114k
	Total	454k-683k	8.3m-12.1m	19k	114k
Benefits	Better value purchases resulting from increased shopping around	–		Up to £6.8m (up to £136m over a 20 year period)	
	Wider benefits from improving competition (for example through efficiency improvements)	–		Not quantified	

105 Using firm segmentation in the compliance costs of proposed changes to the classification from the investment product disclosure regime (June 2006) we have estimated the drawdown market is made up of 7 medium firms and 37 small firms.

Annex 5
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. In addition, this Annex explains how we have considered the recommendations made by HM Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

4. This Annex includes our assessment of the equality and diversity implications of these proposals.

5. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

6. The proposals we are consulting on in this CP are intended to advance the FCA's operational objectives of securing an appropriate degree of protection for consumers and promoting effective competition in the interests of consumers. The proposals set out in this consultation are primarily intended to advance our operational objective of protecting consumers.

7. In considering what degree of protection for consumers is appropriate, we have had regard to the risks involved to consumers' income in retirement if the potential harms we have identified occur and the difference in sophistication and understanding

amongst those making retirement income decisions. We recognise the general principle that consumers should take responsibility for their own decisions, but consider that there is a need for improved information in various areas to make sure that consumers are in a better position to make informed decisions.

8. We believe that our proposals for consultation are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to ensure that consumers are provided with the information they require to make their retirement income decision an informed one. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

9. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA, as set out in the following sections.

The need to use our resources in the most efficient and economic way

10. We have considered this principle and do not believe that our proposals will have a significant impact on our resources or the way we use them.

The principle that a burden or restriction should be proportionate to the benefits

11. Where required, in Annex 4 we have set out our analysis of the costs and benefits of our relevant proposals for consultation. Overall, we believe that our proposals are a proportionate response to our concerns.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

12. We have considered this principle and do not believe our proposals undermine it.

The general principle that consumers should take responsibility for their decisions

13. The pension freedoms mean that consumers have more choice when accessing their pension savings. With this increase in choice, consumers need to make more decisions; ultimately, though, it is for them to decide what is best for them in their circumstances. Broadly, our proposals for consultation aim to provide consumers with the information they require to make their retirement income decision an informed one. Further, and broadly, our proposals for discussion aim to help non-advised consumers avoid making inappropriate choices in drawdown.

The responsibilities of senior management

14. We have had regard to this principle and do not believe our proposals undermine it.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

15. We have had regard to this principle and do not believe our proposals undermine it. Indeed, we have recognised that our investment pathways remedy – set out in Chapter 3 – could have a significant impact on SIPP businesses and tailored our approach accordingly.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

16. We have had regard to this principle and do not believe our proposals undermine it.

The principle that we should exercise of our functions as transparently as possible

17. We have had regard to this principle and do not believe our proposals undermine it.

18. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Expected effect on mutual societies

19. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies than other authorised persons, or present them with any more or less of a burden than other authorised persons.

Equality and diversity

20. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and foster good relations between people who share a protected characteristic and those who do not.

21. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraphs 2.13 to 2.15 (inclusive) of this CP.

Legislative and Regulatory Reform Act 2006 (LRRA)

22. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We believe that our proposals will be effective in helping firms understand and meet regulatory requirements more easily. We also believe that proposals are proportionate and will result in an appropriate level of consumer protection when balanced with impacts on firms.

23. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance, but this duty does not apply to regulatory functions exercisable through our rules.

Treasury recommendations about economic policy

24. We have had regard to the Treasury's recommendations under s.1JA FSMA. Our proposals are consistent with these recommendations, as they aim to improve outcomes for consumers entering decumulation while supporting competition between firms operating in this market.

Annex 6
Abbreviations in this document

ABI	Association of British Insurers
CBA	Cost Benefit Analysis
COBS	Conduct of Business Sourcebook
CP	Consultation Paper
CPI	Consumer Price Index
DB	Defined benefit
DC	Defined contribution
DWP	Department for Work and Pensions
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
GAA	Governance Advisory Arrangement
IGC	Independent Governance Committee
KFI	Key Features Illustration
LRRA	Legislative and Regulatory Reform Act 2006
MAS	Money Advice Service
NEST	National Employment and Savings Trust
NWP	Non-workplace pensions
RIY	Reduction in yield
ROR	Retirement Outcomes Review
RPPD	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers
SFGB	Single financial guidance body

SIPP	Self-invested personal pension
TPR	The Pensions Regulator
UFPLS	Uncrystallised Funds Pension Lump Sum

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 9644 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS

Appendix 1
Draft Handbook text

CONDUCT OF BUSINESS SOURCEBOOK (RETIREMENT OUTCOMES REVIEW) INSTRUMENT 2018

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers); and
(3) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Conduct of Business Sourcebook (Retirement Outcomes Review) Instrument 2018.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definition in the appropriate alphabetical position.

pension commencement lump sum	has the meaning in Part 1 of Schedule 29 to the Finance Act 2004. [Note: http://www.legislation.gov.uk/ukpga/2004/12/schedule/29/part/1]

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

13 Preparing product information

…

13.4 Contents of a key features illustration

13.4.1 R A *key features illustration*<u>:</u>

<u>(1)</u> must include *appropriate charges information*;

<u>(2)</u> <u>must include</u> information about any interest that will be paid to *clients* on money held within a *personal pension scheme* bank ~~account and,~~ <u>account; and</u>

<u>(3)</u> if it is <u>prepared for</u> a *non-PRIIP packaged product* which is not a *financial instrument*:

~~(1)~~ <u>(a)</u> must include a *standardised deterministic projection*;

~~(2)~~ <u>(b)</u> the ~~projection~~ <u>*projection*</u> and charges information must be consistent with each other so that:

~~(a)~~ <u>(i)</u> the same intermediate growth rate and assumptions about regular contributions are used;

~~(b)~~ <u>(ii)</u> a *projection* in nominal terms is accompanied by an effect of charges table and reduction in yield information in nominal terms; and

~~(c)~~ <u>(iii)</u> a *projection* in real terms is accompanied by an effect of charges table and reduction in yield information in real terms; <u>and</u>

~~(3)~~ <u>(c)</u> it may also include *stochastic projections* if there are reasonable grounds for believing that a *retail client* will be able to understand the *stochastic projection* except that the most prominent *projection* must be *a standardised deterministic projection*.

13.4.1A R (1) If *COBS* 14.2.1R(3B), (3C) or (3D) applies, a *key features illustration* must also include the summary key information in *COBS* 13.4.7R.

(2) There is no requirement to provide the summary key information in *COBS* 13.4.7R if the *retail client* proposes to withdraw their pension scheme funds in full reducing the value of their rights to zero.

(3) Where (2) applies and a *retail client* subsequently does not withdraw their pension scheme funds in full reducing the value of their rights to zero, the *firm* must provide the *client* with the summary key information in *COBS* 13.4.7R.

…

Summary key information for income withdrawal or lump sum withdrawal

13.4.6 G The purpose of the summary key information is to present the main information from the *key features illustration* to assist a *retail client* to understand and engage with their chosen *income withdrawal* or *uncrystallised funds pension lump sum* arrangement.

13.4.7 R (1) The summary key information is:

(a) the value of the crystallised and uncrystallised funds in the *retail client's personal pension scheme*;

(b) the value of the *pension commencement lump sum*, if applicable;

(c) the likely value of the *retail client's personal pension scheme* or *stakeholder pension scheme* 5 and 10 years after the date of withdrawal;

(d) reduction in yield information prepared in real terms in accordance with *COBS* 13 Annex 3 3R or *COBS* 13 Annex 4 3R and presented as A% or D% accordingly;

(e) first year charges expressed in cash terms and determined in accordance with (2);

(f) if applicable, the following information about the *income withdrawal* or *uncrystallised funds pension lump sum* arrangement offered:

(i) an assumed start date;

(ii) for one-off payments, the withdrawal figure and date of withdrawal; and

(iii) if the *retail client* has chosen to take regular withdrawals or *uncrystallised funds pension lump sum* payments, the value of those withdrawals on an annual basis.

(2) The first year *charges* must be determined on the basis of the level of *charges* that the *retail client* would be expected to pay in the first year in accordance with the *firm's* charging structure before any promotional discount or reduction is applied, and:

(a) where the effect of charges table has been prepared in accordance with *COBS* 13 Annex 3 2.2R(2), use the amount representing the 'effect of deductions to date' for the first year of the projection; or

(b) where the effect of charges table has been prepared in accordance with *COBS* 13 Annex 4 2.2R, use the amount representing the difference between the values of 'before charges are taken' and 'after all charges are taken from this plan' for the first year of the projection.

13.4.8 G Charges information should be presented as prominently as any other information in the summary key information.

Presentation of summary key information

13.4.9 R (1) The summary key information must be presented on the front page of the *key features illustration* or if the exception in *COBS* 13.1.3R(3)(c) applies, on the front page of the *key features document*.

(2) The summary key information must not exceed a single side of A4 sized-paper when printed.

(3) The requirement in (2) does not apply if a *retail client* asks for summary key information to be provided in an accessible format and the fulfilment of that request will necessitate the use of more than a single side of A4 sized-paper.

…

13 Annex 2 **Projections**

…

G	

1.2A	A *firm* ~~is not prevented from providing~~ <u>may provide</u> a *retail client* with a *projection* ~~of the fund or pension commencement lump sum~~ in nominal terms<u>:</u>	
	<u>(1)</u>	<u>of their fund or *pension commencement lump sum*</u> for planning purposes (for example for a pension mortgage)<u>; or</u>
	<u>(2)</u>	<u>of a *pension commencement lump sum* or *income withdrawal* or *uncrystallised funds pension lump sum* if the *retail client* requests it,</u>
	if ~~it~~ <u>the</u> *projection* is prepared in a way which is consistent with the *standardised deterministic projection*.	

…

R		
2.10	~~A standardised deterministic projection can be prepared in nominal terms, rather than real terms for a:~~	
	~~(1)~~	~~drawdown pension; or~~
	~~(2)~~	~~*personal pension scheme* or *stakeholder pension scheme* from which there has been an election to take regular, ad hoc or one-off *uncrystallised funds pension lump sum payments*.~~ <u>[deleted]</u>

…

14 Providing product information to clients

…

14.2 Providing product information to clients

…

The provision rules for products other than PRIIPs

14.2.1 R A *firm* that sells <u>or gives effect to</u>:

…

(3B) ~~the variation of a *personal pension scheme* to a *retail client*, which involves an election by the *client*~~ <u>a *retail client's* request</u> to make *income withdrawals* ~~or a purchase of a *short-term annuity*,~~ <u>from their *personal pension scheme* or *stakeholder pension scheme* for the first time</u> must provide that *client* with<u>:</u>

<u>(a)</u> <u>a *key features illustration*; and</u>

<u>(b)</u> such <u>other</u> information as is necessary for the *client* to understand the consequences of the ~~variation, including~~

~~where relevant, the information required by *COBS* 13 Annex 2.2.9R (Additional requirements: drawdown pensions and regular *uncrystallised funds pension lump sum* payments)~~ request;

(3C) ~~the variation of a *personal pension scheme* to a *retail client*, which involves~~ a *retail client's* request to make one-off~~, ad-hoc~~ or regular *uncrystallised funds pension lump sum* payments~~,~~ from their *personal pension scheme* or *stakeholder pension scheme* for the first time must provide that *client* with:

(a) a *key features illustration*; and

(b) such other information as is necessary for the *client* to understand the consequences of the ~~variation, including (where relevant) the information required by *COBS* 13 Annex 2.2.9 R(Additional requirements: drawdown pensions and regular *uncrystallised funds pension lump sum* payments)~~ request;

(3D) a *retail client's* request to designate *personal pension scheme* or *stakeholder pension scheme* funds to enable the *retail client* to make *income withdrawals* must provide that *client* with:

(a) a *key features illustration*; and

(b) such information as is necessary for the *retail client* to understand the consequences of the request;

(3E) a *retail client's* request to make an *income withdrawal* subsequent to (3B) or *uncrystallised funds pension lump sum* payment subsequent to (3C) must provide:

(a) such information as is necessary for the *client* to understand the consequences of the request; and

(b) where relevant, the information required by *COBS* 13 Annex 2.2.9 R (Additional requirements: drawdown pensions and regular *uncrystallised funds pension lump sum* payments);

(3F) a *short-term annuity* to a *retail client* must provide*:*

(a) a *key features illustration*; and

(b) such information as is necessary for the *client* to understand the consequences of the request;

…

…

16 Reporting information to client (non-MiFID provisions)

…

16.6 Communications to clients – life insurance, long term care insurance and income withdrawals

…

~~Income withdrawals~~ Annual statements

16.6.8 R At intervals no longer than 12 *months* from the date of ~~an election~~ a request by a *retail client* to take a *pension commencement lump sum*, make *income withdrawals* or one-off, ad-hoc or regular *uncrystallised funds pension lump sum payments*, the relevant *operator* of a *personal pension scheme* or *stakeholder pension scheme* must:

(1) provide the *retail client* with such information as is necessary for the *retail client* to review the ~~election~~ request, including where relevant the information required by *COBS* 13 Annex 2 2.9R; and

(2) inform the *retail client*: ~~how to obtain a *personal recommendation* relating to *advice on investments* (*except P2P agreements*) in respect of the *client's income withdrawals*, and that it would be in the *client's* best interests to do so.~~

(a) to regularly review, make further decisions about, or take further actions in relation to their pension; and

(b) to consider reviewing their investments, especially if their circumstances and retirement objectives have changed.

16.6.9 G The information provided to the *retail client* in *COBS* 16.6.8R(1) is likely to be sufficient for the *client* to review the ~~election~~ request if it contains at least one of the following:

…

(3) …

(c) the rate of withdrawals or payments relative to a sustainable rate; or

(4) (if a *client* has only taken a *pension commencement lump sum*) information about their investment, fund choices, fund value and charges.

…

19 Pensions supplementary provisions

…

19.4 Open market options

Definitions

19.4.1 R In this section:

…

(4) ‘open market options statement’ means the information specified in *COBS* ~~19.4.6R~~ 19.4.6AR, provided in a *durable medium*, to assist the *retail client* to make an informed decision about their open market options;

…

(7) ‘reminder’ is the requirement in *COBS* 19.4.9R to remind the *retail client* about the open market options ~~statement; and~~ statement and the availability of *pensions guidance*;

(7A) ‘retirement risk warnings’ are the warnings required to be given to a *retail client* in accordance with *COBS* 19.4.8DR(2);

(8) ‘signpost’ is the requirement in *COBS* 19.4.16R to provide a written or oral statement encouraging a *retail client* to use *pensions guidance* or to take regulated advice to understand their options at retirement; and

(9) ‘single page summary document’ is a *document* produced by a *firm* that contains the information specified in *COBS* 19.4.6CR.

…

Application

…

19.4.3 G This section specifies the circumstances where a *firm* must:

…

(3) provide information to enable a *retail client* to make an informed decision about how to access their pension savings; ~~at their intended retirement date and beyond~~; ~~and~~

(4) remind a *retail client* about their open market options; and

(5) provide appropriate warnings about the risks generally associated with the *retail client's* options for accessing their pension savings.

Purpose

19.4.4 G The purpose of this section is to ensure that *firms* provide *retail clients* with timely, relevant and adequate information:

(1) to enable them to make an informed decision about their options for accessing their pension savings ~~at their intended retirement date and beyond~~; and

…

…

Open market options statement

When?

19.4.5 R ~~(1)~~ ~~A *firm* must give a *retail client* an open market options statement:~~

~~(a)~~ ~~if a *client* asks a *firm* for a retirement quotation more than four *months* before the *client's* intended retirement date;~~

~~(b)~~ ~~if a *firm* does not receive such a request for a retirement quotation, between four and six *months* before the *client*'s intended retirement date; or~~

~~(c)~~ ~~if a *retail client* with open market options tells a *firm* that he or she is considering, or has decided:~~

~~(i)~~ ~~to discontinue an income withdrawal arrangement; or~~

~~(ii)~~ ~~to take a further sum of money from his or her pension to exercise open market options;~~

~~unless the *firm* has given the *client* such a statement in the last 12 *months*.~~

~~(2)~~ ~~If after taking reasonable steps to comply with the requirement in *COBS* 19.4.5R(1)(b) a *firm* has been unable to provide a *retail client* with an open market options statement the *firm* must provide the statement in good time before it *sells* a pension decumulation product to the *client*.~~ [deleted]

19.4.5A R (1) A *firm* must give a *retail client* an open market options statement:

(a) within two *months* after the *client* reaches 50 years of age; and

(b) between four to ten weeks before the *client* reaches 55 years of age; and

(c) at five year intervals after the open market options statement in (b) is sent until the *client's* pension fund is fully crystallised;

unless the *firm* has given the *client* such a statement in the last 12 *months*.

(2) A *firm* must also give a *retail client* an open market options statement:

(a) if the *client* asks a *firm* for a retirement quotation more than four *months* before the *client's* intended retirement date; or

(b) if a *firm* does not receive such a request for a retirement quotation, between four and six *months* before the *client's* intended retirement date; or

(c) if a *retail client* with open market options tells a *firm* that they are considering, or have decided:

(i) to discontinue an *income withdrawal* arrangement; or

(ii) to take a further sum of money from their pension to exercise open market options; or

(d) if the *retail client* requests to access their pension savings for the first time;

unless the *firm* has given the *client* such a statement in the last 12 *months*.

(3) If after taking reasonable steps to comply with the requirements in (1) or (2) a *firm* has been unable to provide a *retail client* with an open market options statement the *firm* must provide the statement in good time before it *sells* a pension decumulation product to the *client*.

Contents

19.4.6 R ~~An open market options statement must include:~~

~~(1) the *Money Advice Service* fact sheet "Your pension: it's time to choose" available on www.moneyadviceservice.org.uk or a statement provided by a *firm* that gives materially the same information;~~

~~(2) a summary of the *retail client's* open market options, which is sufficient for the *client* to be able to make an informed decision about whether to exercise, or to decline to exercise, open market options;~~

~~(3) information about the *retail client's personal pension scheme*, *stakeholder pension scheme*, *FSAVC*, *retirement annuity contract* or *pension buy-out contract* provided by the *firm*, including:~~

~~(a) the sum of money that will be available to exercise open market options;~~

~~(b) whether any guarantees apply and, if so, information about how the guarantees work;~~

~~(c) any other relevant special features, restrictions, or conditions that apply, such as (for *with-profits funds*) any market value reduction conditions in place; and~~

~~(d) any other information relevant to the exercise of the *retail client's* open market options; and~~

~~(4) a clear and prominent statement about the availability of the *pensions guidance* including:~~

~~(a) how to access the *pensions guidance* and its contact details;~~

~~(b) that *pensions guidance* can be accessed on the internet, telephone, or face to face;~~

~~(c) that the *pensions guidance* is a free impartial service to help consumers to understand their options at retirement; and~~

~~(d) a recommendation that the *client* seeks appropriate guidance or advice to understand their options at retirement.~~ [deleted]

19.4.6A R (1) The open market options statement given in accordance with *COBS* 19.4.5AR(1)(a) must include:

(a) a single page summary document; and

(b) appropriate retirement risk warnings.

(2) All other open market options statements must include:

(a) a single page summary document;

(b) a fact sheet;

(c) appropriate retirement risk warnings;

(d) a statement about whether any guarantees apply and, if so, how they work; and

(e) any other information to enable the *retail client* to be able to make an informed decision about whether to exercise, or to decline to exercise, open market options.

Single page summary document

19.4.6B R (1) The single page summary document must not exceed a single side of A4-sized paper when printed.

(2) The requirement in (1) does not apply if a *retail client* asks for the information to be provided in an accessible format and the fulfilment of that request will necessitate the use of more than a single side of A4-sized paper.

19.4.6C R The single page summary document must include the following information:

(1) the *retail client's* intended retirement date;

(2) the *firm*'s name;

(3) if the *retail client* makes or receives employment related contributions:

(a) the employer's name; and

(b) the employer and employee's contribution rate (if applicable);

(4) the current value of the *retail client's* pension savings;

(5) a statement about whether any guarantees apply and, if so, where to find out further information;

(6) any other relevant special features, restrictions, or conditions that apply, such as (for *with-profits funds*) any market value reduction conditions in place, and how to find out further information;

(7) if the statement is required to be provided up to six *months* before the *retail client's* intended retirement date, a statement

asking the *retail client* to consider whether they are saving enough to meet their needs at retirement;

(8) a clear and prominent statement about the availability of *pensions guidance* including:

(a) how to access the *pensions guidance* and its contact details;

(b) that *pensions guidance* can be accessed on the internet, telephone, or face to face;

(c) that the *pensions guidance* is a free impartial service to help consumers to understand their options at retirement;

(d) a recommendation that the *client* seeks appropriate guidance or advice to understand their options at retirement; and

(e) the government logo and *pensions guidance* logo next to or above the statement.

19.4.7 G For the purpose of *COBS* ~~19.4.6R(1)~~ 19.4.6AR(2) where a *firm* provides its own statement as the fact sheet, it should include materially the same information in the *Money Advice Service* fact sheet about:

…

19.4.8 R An open market options statement must not include an application form or marketing material for a pension decumulation product.

Retirement risk warnings

19.4.8A R The retirement risk warnings must be:

(1) prepared before they are given to a *retail client* for the first time; and

(2) kept up to date.

19.4.8B R To prepare the retirement risk warnings a *firm* must:

(1) identify the main risk factors relevant to *retail clients'* exercise of open market options; and

(2) prepare appropriate retirement risk warnings in relation to each of those risk factors.

19.4.8C G (1) Examples of the risk factors relevant to *retail clients'* exercise of open market options include:

(a) the *client's* age and intended retirement date;

(b) the amount of the *client's* pension savings;

(c) if there are ongoing employer contributions;

(d) the existence of means-tested benefits;

(e) protection under the *compensation scheme*; and

(f) the need to review, make further decisions about, or take further actions in relation to their pension savings depending on their intended investment objectives.

(2) *Firms* should also have regard to the examples of risk factors which relate to pension decumulation products at *COBS* 19.7.12G.

19.4.8D R To provide the retirement risk warnings a *firm* must:

(1) based on information held about the *retail client* and their open market options, identify what risk factors are most likely to be present; and

(2) provide appropriate retirement risk warnings to the *retail client* in relation to the risk factors identified in (1).

19.4.8E G If it is unclear whether a risk factor is present, a *firm* should give the *client* the appropriate retirement risk warning.

19.4.8F R Retirement risk warnings which are provided between:

(1) four to ten weeks before the client reaches 55 years of age, and

(2) seven *months* before the *retail client's* intended retirement date,

must include a clear and prominent statement that accessing pension savings at this point in time may not be the best option.

19.4.8G R The *firm* must provide the *retail client* with the following information:

(1) the key assumptions that were used to prepare the retirement risk warnings; and

(2) the personal data it relied on to provide the retirement risk warnings.

Presentation of retirement risk warnings

19.4.8H R (1) The risk warnings must not exceed a single side of A4-sized paper when printed.

(2) The requirement in (1) does not apply if a *retail client* asks for the risk warnings to be provided in an accessible format and the fulfilment of that request will necessitate the use of more than a single side of A4-sized paper.

19.4.9 R At least six weeks before the *retail client's* intended retirement date the *firm* must:

…

(3) ~~remind the *client* about the availability of the *pensions guidance*~~ provide the *client* with a clear and prominent statement recommending that the *client* uses the *pensions guidance* and that appointments are available; and

(4) recommend that the *client* seeks appropriate guidance or advice to understand their options at retirement.

19.4.10 R The reminder must not include an application form or marketing material for a pension decumulation product.

…

Communications about options to access pension savings

19.4.15 G … In particular a ~~firm~~ *firm* should:

…

(3) ensure that the content, presentation or layout of any:

(a) pension decumulation product information; or

(b) information provided in accordance with *COBS* 19.4.6AR(2)(e), including information accessed via hypertext links or online calculators,

does not ~~emphasise any potential benefits of the *firm's* own products and services in a way that disguises, diminishes or obscures~~ disguise, diminish or obscure important information or messages contained in the fact sheet or the single page summary document;

…

Signposting pensions guidance

19.4.16 R …

(2) A *firm* is not required to provide the *client* with the statement required in (1) where:

…

(d) the *firm* is providing the *client* with an open market options statement or six-week reminder in accordance with *COBS* ~~19.4.5R~~ 19.4.5AR or *COBS* 19.4.9R.

…

19.9 Pension annuity comparison information

Definitions

19.9.1 R In this section:

(-1) an "enhanced annuity" refers to a *pension annuity* that pays a higher level of income due to a *retail client's* health or lifestyle;

…

(2A) an "income quote" is a guaranteed quote that offers at least the level of annual income requested by a *retail client*;

(3) a "market-leading *pension annuity* quote" is a quote for a *pension annuity* that:

…

(b) provides the *retail client* with either:

(i) the highest annual income from amongst all of the quotes generated under (a); or

(ii) (in the case of an income quote) at least the amount of annual income requested by the *retail client* at the lowest purchase price from amongst all of the quotes generated under (a).

(4) "pension-related benefit" means one or more of the following:

(a) …

(b) an entitlement to a ~~pension commencement lump sum~~ *pension commencement lump sum* that exceeds …

…

(5) "*pension annuity* comparator information" means the information the *firm* must provide under this section; and

(6) ~~"pension commencement lump sum" has the meaning as Part 1 of Schedule 29 to the Finance Act 2004; and~~ [deleted]

…

…

Purpose

19.9.3 G This section specifies:

(1) when a *firm* must provide:

(a) a *retail client* with *pension annuity* comparator information, including whether the *pension annuity* it is offering will provide:

(i) more or less annual income than the market-leading pension annuity quote; ~~and~~ or

(ii) (in the case of an income quote) at least the amount of annual income requested by the *retail client* at the lowest purchase price; and

…

…

(3) the content and format of the *pension annuity* comparator information that must be provided in different circumstances; and

(4) when a *firm* must ask questions about the *retail client's* eligibility for an enhanced annuity.

Eligibility for enhanced annuities

19.9.3A R (1) When a *firm* generates a guaranteed quote and a market-leading *pension annuity* quote it must ask the *retail client* questions to determine whether the *client* may be eligible for an enhanced annuity.

(2) If the *retail client* is eligible for an enhanced annuity the *firm* must generate a guaranteed quote for an enhanced annuity and a market-leading quote for an enhanced annuity.

(3) *Firms* may only use the information gathered in (1) for the purposes of:

(a) generating a guaranteed quote and a market-leading *pension annuity* quote;

(b) assisting another *firm*, on request, to generate a market-leading quote (*COBS* 19.9.9R); and

(c) <u>underwriting, administering, and entering into a contract for an enhanced annuity;</u>

<u>unless the *retail client* consents to it being used for other purposes.</u>

Content of pension annuity comparator information

19.9.4 R …

(4) if applicable, information about the maximum ~~pension commencement lump sum~~ <u>*pension commencement lump sum*</u> …

…

(5) the helpline phone number and the website address for the *Money Advice Service* and an explanation that the phone number and website can be used to obtain *pension annuity* quotes from other *pension annuity* providers; <u>and</u>

(6) ~~information about how a *retail client*'s health or lifestyle may entitle the *retail client* to a pension annuity that pays a higher income (an enhanced annuity); and~~ <u>[deleted]</u>

…

Information comparing a guaranteed quote and a market-leading pension annuity quote

19.9.7 R A *firm* must:

…

(2) <u>unless (2A) applies,</u> determine which of the following will, or is most likely to, offer a *retail client* the highest annual income:

…

<u>(2A)</u> <u>in cases where a *retail client* has requested an income quote, determine which of the following will, or is most likely to, offer a *retail client* with at least the annual income that the *retail client* has requested at the lowest purchase price:</u>

<u>(a)</u> <u>the *pension annuity* offered by the guaranteed quote ("A1");</u>

<u>(b)</u> <u>the *pension annuity* offered by the market-leading pension annuity quote ("B1"); or</u>

(c) if applicable, the pension that the *retail client* is entitled to, or will be entitled to, pursuant to their entitlement to a *guaranteed annuity rate* ("C1");

(3) use the template in:

(a) Part 1 of *COBS* 19 Annex 3R where (2) applies and B offers a *retail client* the highest level of annual income; ~~or~~

(b) Part 2 of *COBS* 19 Annex 3R where (2) applies and A, C or D offers a *retail client* the highest level of annual income;

(c) Part 4 of *COBS* 19 Annex 3R where (2A) applies and B1 offers a *retail client* at least the annual income that the *retail client* has requested at the lowest purchase price; or

(d) Part 5 of *COBS* 19 Annex 3R where (2A) applies and A1 or C1 offers a *retail client* at least the annual income that the *retail client* has requested at the lowest purchase price;

(4) where (2) applies and B offers the highest annual income:

…

(4A) where (2A) applies and B1 offers at least the requested annual income at the lowest purchase price:

(a) calculate as a single sum in pounds sterling the difference in purchase price between A1 and B1;

(b) include that amount in the relevant place in the template; and

(c) include a statement making it clear that the *retail client* could obtain at least the requested annual income at a lower purchase price by searching the open market for a *pension annuity*;

(5) where (2) applies and A offers the highest annual income, include a statement that A will provide the *retail client* with the highest annual income;

(5A) where (2A) applies and A1 offers at least the requested annual income at the lowest purchase price, include a statement that A1 will provide the *retail client* with at least the requested annual income at the lowest purchase price;

(6) if applicable, where <u>(2) applies and</u> C or D will, or is likely to, provide the highest level of annual income:

…

<u>(6A)</u> <u>where (2A) applies and C1 will, or is likely to, provide at least the requested annual income at the lowest purchase price:</u>

<u>(a)</u> <u>calculate as a single sum in pounds sterling the difference in purchase price between A1 and C1;</u>

<u>(b)</u> <u>include that amount in the relevant place in the template; and</u>

<u>(c)</u> <u>warn the *retail client* that:</u>

… <u>(i)</u> <u>the entitlement to C1 will be extinguished if the *retail client* accepts A1; and</u>

<u>(ii)</u> <u>accepting A1 will result in the *retail client* receiving a lower annual income than the *retail client* is entitled to pursuant to C1.</u>

<u>(7)</u> <u>where (2A) applies and either A1 or B1 offers the *retail client* at least the requested annual income at the lowest purchase price, a *firm* must determine whether the *retail client's* entitlement to a *guaranteed annuity rate* can be applied to offer a better value annuity compared to the lowest purchase price annuity on offer and, if so, warn the *retail client* accordingly</u>.

<u>19.9.7A</u> <u>G</u> <u>An example of where a *firm* may need to provide a warning referred to in *COBS* 19.9.7R(7) is where a *retail client* ('R') is seeking an annuity of £5,000 and the lowest purchase price for such an annuity is £100,000. If R's entitlement to a *guaranteed annuity rate* can be used to provide R with an annuity of £15,000, albeit at a cost of £200,000, the *firm* should warn R of this possibility. Where applicable, such a warning should be included in the relevant template and may also be given orally.</u>

…

Pension commencement lump sum

19.9.11 R (1) This *rule* applies if a *retail client* is entitled to a ~~pension commencement lump sum~~ <u>*pension commencement lump sum*</u> that …

(2) A *firm* must warn the *retail client* if the *pension annuity* offered by…

…

will, if accepted, reduce the ~~pension commencement lump sum~~ *pension commencement lump sum* that a *retail client* would otherwise be entitled to receive.

Information about pension-related benefits

19.9.12 R …

(4) If, despite taking reasonable steps under (3), it remains unclear whether a *retail client*:

…

(d) is entitled to a ~~pension commencement lump sum~~ *pension commencement lump sum* …

…

19.9.15 R …

(3) Where this rule applies:

(a) …

(b) a *firm* must include information, as applicable, warning the *retail client* that: ~~a higher annual income might be obtained by searching the open market for a pension annuity; and~~

(i) a higher annual income might be obtained; or

(ii) at least the requested annual income might be obtained for a lower purchase price;

by searching the open market for a *pension annuity*; and

(c) a *firm* must, as applicable, use the template in ~~either~~ Part 3 or Part 6 of *COBS* 19 Annex 3R to provide the applicable *pension annuity* comparator information.

…

19 Annex 2G **Communications about options to access pension savings**

This annex belongs to *COBS* 19.4

The definitions in *COBS* 19.4.1R are applied to these tables.

Table 1: Communications required to be made by the firm at specified times

Handbook reference	**Matters to be communicated**	**Contents of communication**	**When**
~~19.4.5R~~ 19.4.5AR	Open market options statement	A statement satisfying the requirements of ~~*COBS* 19.4.6R,~~ *COBS* 19.4.6AR, *COBS* 19.4.8R and *COBS* 19.4.10R	Trigger events specified at *COBS* ~~19.4.5R~~ 19.4.5AR
…			

Table 2: Requirements for other communications

Handbook reference	**Subject of communication**	**Contents of communication**	**Trigger**
…			
19.4.15G	Communications about options to access pension savings	A *firm* should refer to the guidance in *COBS* 19.4.15G when communicating with a *client* about their options to access pension savings. *Firms* may also be required to signpost *pensions guidance* (*COBS* 19.4.16R) and in some circumstances provide an open market options statement (*COBS* 19.4.5AR(2)(d)).	Any communication with a *client* about their options to access their pension savings
19.4.18R	*Client* applies to access pension savings	A *firm* must provide a description of the tax implications unless it is provided in accordance with *COBS* 14.2.1R.	*Firm* receives an application from a *client* to access pension savings

		Firms may be required to provide retirement risk warnings (*COBS* 19.7.7R). *Firms* may also be required to signpost *pensions guidance* (*COBS* 19.4.16R). If the *client* asks to access their pension savings for the first time the *firm* must provide an open market options statement (*COBS* 19.4.5AR(2)(d)).	

19 Annex 3R **Format for annuity information**

This annex belongs to *COBS* 19.9.7R(3) and *COBS* 19.9.15R(3)(c).

1	Format of bar graph in the Part 1 template		
1.1	Format of bar graph (where annual income is depicted)		
1.1.1	…		
1.2	Format of bar graph in Part 4 (where the purchase price of the pension annuity is depicted)		
1.2.1	When a *firm* is creating the two bar graphs as set out in Part 4, it must ensure:		
	(1)	the lowest purchase price of the *pension annuity* offered by the market-leading quote is presented on the left-hand side of the two bar graphs with the higher purchase price in the *firm's* guaranteed quote appearing on the right hand side;	
	(2)	The y-axis must:	
		(a)	start with a monetary value which is £20 below the purchase price of the lowest *pension annuity* quote;
		(b)	use a scale which clearly and fairly depicts the difference in the purchase price of the *pension annuity* offered by the market-leading quote and the *firm's* guaranteed quote; and
		(c)	only include numbers or details which are required by the *rules* in *COBS* 19.9 or the provisions of this annex.

…	

Part 1: Template for cases where the guaranteed quote does not provide highest annual income

Where the guaranteed quote does not provide the highest annual income

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Annuity features

Purchase price **£XX,XXX**

Paid **quarterly** in advance

Dependents income

No guarantee period

Payments **increase** by 2% per year

[Other key features of annuity]

If relevant, include key information here such as:

You are entitled to a [guaranteed annuity rate][minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX.

You are entitled to tax free cash greater than 25% of your pension pot. You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, your intermediary will receive £ZZZ commission from your provider.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote

This annuity will provide you with an annual income of:

£A,AAA

Can you get a better income from your annuity?

Based on your key information, there are quotes available from other providers offering higher rates. If you select our product, you would be **losing out on £BB per year.**

And, if applicable: You are entitled to a [guaranteed annuity rate from your current pension provider][minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX. If you select our product, you could be **losing out on £DD per year.**

The Financial Conduct Authority is a financial services regulator. It requires us to inform you that you can shop around if you want to. If you want to see what other options are available from other providers please visit moneyadviceservice.org.uk/annuitiesquotes or call 0800 138 7777.

~~**Did you know?**~~

~~If you've not already been asked questions about your health or lifestyle, answering these could get you even more income.~~

~~For example - if you've smoked tobacco, been advised by a medical professional to adjust your lifestyle to improve your health or had a medical condition requiring prescribed medication or hospital treatment - you may be entitled to more income than is quoted above.~~

Visit moneyadviceservice.org.uk/annuitiesquotes or call 0800 1387777 to find out more.

Company contact details and other key information

Part 2: Template for cases where the guaranteed quote, the guaranteed annuity rate, a guaranteed minimum pension or section 9(2B) rights offer the highest annual income

Where a guaranteed quote, a guaranteed annuity rate, a guaranteed minimum pension or section 9(2B) rights offer the highest annual income

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Annuity features

Purchase price **£XX,XXX**	**No guarantee** period
Paid **quarterly** in advance	Payments **increase** by 2% per year
Dependents income	*[Other key features of annuity]*

If relevant, include key information here such as:

You are entitled to a [guaranteed annuity rate][minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX.

You are entitled to tax free cash greater than 25% of your pension pot. You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, your intermediary will receive £ZZZ commission.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote

This annuity would provide you with an annual income of:

£A,AAA

Can you get a better income from your annuity?

Based on your key information, our quote is the highest available to you.

Or in the event that the consumer is entitled to a guaranteed annuity rate or minimum level of guaranteed pension which is higher:

You are entitled to a [guaranteed annuity rate from your current pension provider] [minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX. If you select our product, you could be **losing out on £DD per year.**

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~~**Did you know?**~~

~~If you've not already been asked questions about your health or lifestyle, answering these could get you even more income.~~

~~For example - if you've smoked tobacco, been advised by a medical professional to adjust your lifestyle to improve your health or had a medical condition requiring prescribed medication or hospital treatment - you may be entitled to more income than is quoted above.~~

Visit **moneyadviceservice.org.uk/annuitiesquotes** or call 0800 1387777 to find out more.

Company contact details and other key information

Part 3: Template for cases where the retail client does not consent to a market-leading quote being generated

Where appropriate consent has not been given to allow a firm to generate a market-leading quote

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Annuity features

Purchase price **£XX,XXX**	**No guarantee** period
Paid **quarterly** in advance	Payments **increase** by 2% per year
Dependants income	*[Other key features of annuity]*

If relevant, include key information here such as:

You are entitled to a [guaranteed annuity rate][minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX.

You are entitled to tax free cash greater than 25% of your pension pot. You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, your intermediary will receive £ZZZ commission from your provider.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote

This annuity would provide you with an annual income of:

£A,AAA

Can you get a better income from your annuity?

You may be able to get a higher income by shopping around.

If you want to see what other options are available from other providers please visit moneyadviceservice.org.uk/annuitiesquotes or call 0800 138 7777.

~~**Did you know?**~~

~~If you've not already been asked questions about your health or lifestyle, answering these could get you even more income.~~

~~For example – if you've smoked tobacco, been advised by a medical professional to adjust your lifestyle to improve your health or had a medical condition requiring prescribed medication or hospital treatment – you may be entitled to more income than is quoted above.~~

Visit moneyadviceservice.org.uk/annuitiesquotes or call 0800 1387777 to find out more.

Company contact details and other key information

Part 4: Template for cases where the market-leading quote offers the lowest purchase price pension annuity

Where the market-leading quote offers the lowest purchase price

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Annuity features

Annual income **£XX,XXX**	**No guarantee** period
Paid **quarterly** in advance	Payments **increase** by 2% per year
Dependents income	*[Other key features of annuity]*

If relevant, include key information here such as:

You are entitled to a guaranteed annuity rate from [date/customer's age] paying an [estimated] annual income of £X,XXX [when applied to the total value of your pension pot (£X,XXX)].

You are entitled to tax free cash greater than 25% of your pension pot. You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, your intermediary will receive £ZZZ commission from your provider.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote

Buying this annuity from us will cost you:

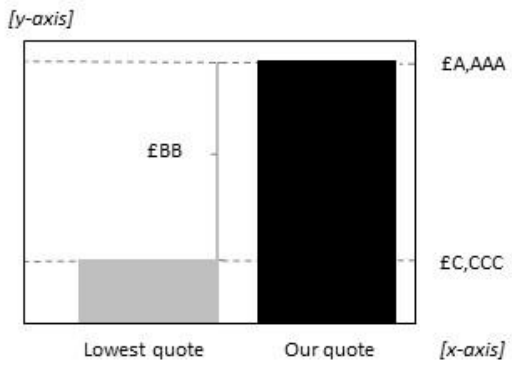
£A,AAA

Can you pay less for your annuity?

Based on your key information, there are quotes available from other providers offering a lower purchase price. If you select our product, you would be **paying £BB too much to purchase your annuity.**

[if applicable] Based on your key information, the lowest quote offers you the lowest purchase price for the requested income of £xx,xxx. However, you are entitled to a guaranteed annuity rate from your current provider paying an [estimated] annual income of £X,XXX on your pension pot of £XX,XXX, offering a better value annuity than the lowest purchase price quote. You also risk losing your entitlement to the guaranteed annuity rate if you proceed with the lowest purchase price quote.

[if applicable] You are entitled to a guaranteed annuity rate from your current pension provider from [date/customer's age] paying an [estimated] annual income of £X,XXX. **[when applied to the total value of your pension pot (£X,XXX)]**.



The Financial Conduct Authority is a financial services regulator. It requires us to inform you that you can shop around if you want to. If you want to see what other options are available from other providers please visit moneyadviceservice.org.uk/annuitiesquotes or call 0800 138 7777.

Company contact details and other key information

Part 5: Template for cases where the income quote or the application of a retail client's guaranteed annuity rate offers the lowest purchase price pension annuity

Where the income quote or a guaranteed annuity rate offers the lowest price pension annuity

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Annuity features	
Annual income **£XX,XXX**	**No guarantee** period
Paid **quarterly** in advance	Payments **increase** by 2% per year
Dependents income	*[Other key features of annuity]*

If relevant, include key information here such as:

You are entitled to a guaranteed annuity rate from [date/customer's age] paying an [estimated] annual income of £X,XXX [when applied to the total value of your pension pot (£X,XXX)].

You are entitled to tax free cash greater than 25% of your pension pot. You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, your intermediary will receive £ZZZ commission.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote

Buying this annuity from us will cost you:

£A,AAA

Can you pay less for your annuity?

Based on your key information, our quote offers you the lowest purchase price.

OR

Based on your key information, our quote offers you the lowest purchase price for the requested income of £xx,xxx. However, you are entitled to a guaranteed annuity rate from your current provider paying an [estimated] annual income of £X,XXX on your pension pot of £XX,XXX, offering a better value annuity than our quote. You also risk losing your entitlement to the guaranteed annuity rate if you proceed with our quote.

OR

You are entitled to a [guaranteed annuity rate from your current pension provider] [from [date/customer's age] paying an [estimated] annual income of £X,XXX. **[when applied to the total value of your pension pot (£X,XXX)]**

The Financial Conduct Authority is a financial services regulator. It requires us to inform you that you can shop around if you want to. If you want to see what other options are available from other providers please visit **moneyadviceservice.org.uk/annuitiesquotes** or call 0800 138 7777.

Company contact details and other key information

Part 6: Template for cases where the retail client does not consent to a market-leading quote being generated

Where appropriate consent has not been given to allow a firm to generate a market-leading quote

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Annuity features

Annual income **£XX,XXX**	**No guarantee** period
Paid **quarterly** in advance	Payments **increase** by 2% per year
Dependants income	*[Other key features of annuity]*

If relevant, include key information here such as:

You are entitled to a guaranteed annuity rate from [date/customer's age] paying an [estimated] annual income of £X,XXX [when applied to the total value of your pension pot (£X,XXX)].

You are entitled to tax free cash greater than 25% of your pension pot. You may lose this right if you switch provider. Your existing pension provider will be able to provide more information about this.

For arranging this policy, your intermediary will receive £ZZZ commission from your provider.

You have agreed with your adviser that the cost of their services will be taken from this policy as follows [provide details here].

Our quote

Buying this annuity from us will cost you:

£A,AAA

Can you pay less for your annuity?

You may be able to pay less for an annuity providing £XX,XXX a year by shopping around.

If you want to see what other options are available from other providers please visit moneyadviceservice.org.uk/annuitiesquotes or call 0800 138 7777.

Company contact details and other key information

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