Effective competition in non-workplace pensions

Annexes for Feedback Statement – FS19/5

July 2019

Contents

Annex 1 - Feedback summary

Introduction

1.1 Discussion paper (DP) 18/1, Effective Competition in Non-Workplace Pensions, sought views and evidence from consumer and industry representatives about the factors that influence the behaviours of consumer and providers and whether the current market dynamics ensure fair outcomes for non-workplace pension customers.

1.2 The discussion period ran from 2 February 2018 to 27 April 2018. We received over 35 responses from professional bodies, authorised firms, trade associations, consumer groups, individual consumers and the FCA's statutory panels.

1.3 We asked 15 questions in our Discussion Paper. Here we summarise the feedback we received for each question and provide our response to that feedback in the light of the evidence we have gathered during our assessment. This document does not provide a response in relation to feedback comments that:

- concern other FCA work that was underway during the discussion period but which has since concluded, in particular the FCA and TPR joint regulatory strategy for regulating the pensions and retirement income sector and the Retirement Outcomes Review (final Policy Statement published at the same time as this Feedback Statement)
- relate to matters of government policy rather than FCA regulation
- concern advice requirements for on DB to DC transfers (a further Consultation Paper published at the same time as this Feedback Statement).

Responses

Overview of non-workplace market

Q1: Do you agree with our high-level description of the market? Have we omitted any significant elements or dynamics?

1.4 The FCA received 27 responses to this question.

1.5 Most respondents broadly agreed with the description of the market in DP 18/1. Many commented on the diverse range of consumers in the market, the variety of products, and the tax legislation that applies to them. Some suggested that this heterogeneity creates competitive pressure in the market. Others noted only that our review should consider cohorts of products and consumers separately.

1.6 Some respondents suggested that our review should consider only the support needed for those consumers who do not access advice because advisers can:

- have regard to value for money
- mitigate the complexity (perceived or actual) that consumers face when selecting a pension

1.7 A small number of consumer respondents noted that concerns about the cost of advice and mistrust in advisers' incentives deter some consumers from getting advice. Other respondents noted that consumers with small pots may struggle to find an adviser willing to take them on.

1.8 Some respondents felt strongly that workplace remedies would be inappropriate in the market for NWP because:

- they consider NWP customers to be far more engaged than workplace pensions scheme members: the consumer must choose to start a NWP and select the underlying fund(s).
- NWPs have more in common with private savings products such as ISAs and cash accounts than workplace pensions (although other respondents noted that pensions are perceived generally to be more complex and therefore quite distinct from ISAs and other retail investments).

Our response

Diverse market

The data we gathered confirmed our original impression of the composition of the market. Chapter 2 of our Feedback Statement demonstrates that the market is large, has many participants, offers a range of products and serves a diverse range of consumers.

Our data collection and consumer research were carefully designed to ensure that we could assess our findings through the lens of many different characteristics, including product type, pot size, when sold (and whether sold with regulated advice), but also compare findings on a broadly like-for-like basis. See Chapter 3 of our Feedback Statement.

Distinction from workplace pensions

We agree that the active decision to take a pension distinguishes non-workplace pension customers from many members of workplace pension schemes. However, the consumer research we commissioned found a clear difference between wanting a pension and engaging in the process of getting one. For many consumers, engagement at the point of sale often extends only as far as the consumer acknowledging that it is 'sensible' to have a pension.

We acknowledge that pensions (workplace and non-workplace) are not the only means by which a consumer may choose to save for retirement, but they are the most popular and they are considered the safest option (consistently for the last four years, c50% of respondents to an ONS survey listed paying into a pension as the safest method of saving for retirement).

We found no evidence to suggest that, from a consumer perspective, NWP have more in common with savings and retail investments than pensions.

Regulated financial advice

The data we gathered from the industry confirms that most existing NWPs were sold with advice. Quality of advice was not part of our review therefore we cannot comment on either the suitability of recommendations at the point of sale or the extent to which charge levels were factored into advisers' recommendations.

We agree that suitable advice at the outset should minimise the risk of consumers incurring poor outcomes, at least initially, but pensions can be long term investments and not all consumers who receive advice at the point of sale have an ongoing relationship with their adviser. Furthermore, financial advice at the point of sale may not necessarily ensure that the pension remains good value throughout the saver's lifetime.

Next year we aim to publish the findings from our review the impact of the Retail Distribution Review (RDR) and Financial Advice Market Review (FAMR) using indicators from a range of data. The RDR had far-reaching objectives to raise the quality of advice, increase adviser professionalism and reduce bias in product sales. FAMR focused on two further themes vital to develop the market for advice and guidance: accessibility and affordability.

Demand-side weaknesses

Q2: Do you have any comments, observations or evidence about engagement levels among non-workplace pensions customers?

1.9 26 respondents answered this question.

1.10 Many respondents consider NWP customers to be engaged, or at least more engaged than members of workplace schemes, including AE schemes. The reasons cited included the fact that NWP customers:

- make an active decision to be invested in a NWP
- are more likely to seek advice (which should ensure suitability and may lead to greater engagement)
- contributions are deducted from bank account rather than salary

1.11 Other respondents took a more nuanced approach, noting that

- engagement levels can vary, accordingly to levels of financial literacy
- engagement may not be sustained throughout the duration of the pension

1.12 They also noted, however, that lack of engagement does not, of itself, lead to poor value for money. Some industry commentators and consumer representatives noted that:

- understanding the need for a pension should not be mistaken for engagement with the dynamics of retirement saving
- it is currently difficult or impossible for even engaged to consumers to understand if their pensions provide value for money

1.13 Many respondents thought more should be done to boost engagement and take-up of advice and guidance and noted the emerging role for the Money and Pensions Service in this space. They also noted that provider communications should play an important role in maintaining consumers engagement and have the potential to educate consumers.

1.14 Other respondents indicated that provider communications would be more effective if they could be made shorter, and delivered digitally. Some respondents noted that annual benefit statements do not currently promote engagement because they do not provide a clear call to action.

Our response

Engagement levels

As noted above, the consumer research we commissioned found a clear difference between wanting a pension and engaging in the process of getting one. For many consumers, engagement at the point of sale often extends only as far as the consumer acknowledging that it is 'sensible' to have a pension. The research also found that regulated financial advice is not always a means of boosting engagement, as consumers often delegate all decision making to the adviser. The consumer research found very little engagement beyond the point of sale on an ongoing basis.

Supporting engagement

Consumer understanding and decision-making was listed as one of the four key areas of focus in the FCA and TPR joint regulatory strategy for regulating the pensions and retirement income sector. In the strategy, we committed to undertake a joint review of the consumer pensions journey, examining how disclosures and information from pension schemes and providers combine with available guidance and advice services to help consumers make well-informed decisions. As well as the content of communications, the review will consider their timing and method of delivery, and will cover both trust- and contract-based pensions. This work will be strategic in nature, taking a step back and considering all the previous and ongoing work in this space.

In our Smarter Consumer Communications publications (2015-16), we outlined how we believe consumer engagement can best be achieved through rethinking not just what is communicated but also how it is communicated with consumers. We also acknowledged a predominantly paper based disclosure may not meet today's consumer information needs. Our ambition is to create an environment and regulatory framework where firms' communications encourage and enable informed consumer engagement and making decisions regarding financial products and services.

We are aware that some consumer-focussed communications are being developed by industry. For example, a simpler annual benefit statement was developed by an industry-wide group and launched at the Pensions and Lifetime Savings Association Annual Conference in October 2018. The aim of the two-page statement is to help pension schemes and providers give pension scheme members just the key information they need, presented in plain English and with more consistency. In addition, many respondents from the life insurance sector told us that Finalised Guidance 16/8, Fair treatment of long-standing customers in the life insurance sector, prompted them to make revisions and improvements to their customer communications.

Financial guidance

The Money and Pensions Service (MaPS) will launch its National Strategy and three-year corporate plan in the Autumn. MaPS mission is to ensure that all UK citizens can easily access the information they need to make the right financial decisions throughout their lives.

Financial Literacy

MaPS has already published a three-year review of the Financial Capability Strategy for the UK comprising lessons learned and recommendations for the next stage of its delivery. MaPS' approach to financial capability going forward will be set out in its autumn Strategy publication.

Q3: Do you have any comments, observations or evidence about the factors that influence consumers to switch between or transfer into non-workplace pensions?

1.15 Most respondents cautioned that switching levels are not necessarily the best measure of competition in this market owing to the long-term nature of investments. Switching too often could lead to loss of valuable product features and investment growth.

1.16 In fact, respondents indicated that most switches are prompted by the advice of a regulated adviser, typically to consolidate pensions and rarely prompted by the level of charges (which have a marginal impact on value compared to other factors, respondents added).

1.17 Some respondents were concerned that consumers should not contemplate switching without advice or guidance (as consumers may make these decisions on the basis of an annual statement that relates to a single year's performance, which may not be indicative of future performance). Consequently, a lack of affordable advice and limited awareness of guidance (particularly for consumers with small pots) as well as mistrust in existing advisers, were cited as barriers to switching.

1.18 Other respondents noted that the switching process either is, or is perceived as, slow and complex and exit charges can be high and that these served as further deterrents from switching.

Our response

Why switching matters

The ability to switch is an important part of a competitive market. Increased shopping around is only effective if consumers can actually switch easily (when this would benefit them) and do not see switching as complicated or time consuming.

Chapter 3 of our Feedback Statement sets out our findings on consumers' experience of switching. We found that switching rates in 2017 were low. Low switching rates are not necessarily a cause for concern when investments are designed to be long-term. However, the low rates we have found reinforce our view that low engagement, complex charges and a lack of awareness of charges prevent consumers from finding more competitive products. This leads to a lack of consumer pressure on firms to compete on charges.

Potential barriers to switching

Chapter 3 explains that we identified some instances of exit charges, but also that these are no longer commonplace in the market. Some respondents also told us that, following TR16/2 and FG16/8 they have taken steps to remove or reduce exit charges on all their pensions. Additionally, given the low level of charge awareness revealed in our consumer research, we do not consider that exit charges are likely to be the main deterrent to consumer switching.

Most of the consumer research participants that did switch pensions, did so without difficulties. A small number, however, tried to switch or consolidate pots but abandoned the process due to the perceived complexity involved. A very small number faced issues during the transfer process (largely around time involved).

We await industry progress in improving the switching process through the STAR venture. STAR is in the process of implementing a framework which sets expectations for end-to-end standards, consumer communications, and provides oversight and transparency. We strongly encourage firms in the retail investment and pension sectors to get behind this initiative.

Q4: Do you have any comments on the impact of regulated advice on consumers' ability to understand and assess their pensions throughout the product lifecycle?

1.19 The majority of respondents noted that regulated advice and guidance are key to consumers achieving good outcomes from their non-workplace pension. However, they also noted that while a considerable proportion of NWP customers receive regulated financial advice at the point of sale, it is far less common that consumers continue to receive regulated advice throughout the duration of the pension. Reasons offered include:

- regulated advice is, or is considered, unaffordable
- the customer does not consider advice necessary or valuable
- original adviser may have left the industry
- regularly seeking advice or guidance is not a current social norm
- the customer does not know where and how to access financial guidance

1.20 To address this ‘advice gap’, some respondents called for further innovation in providing technology-enabled advisory solutions and many suggested MaPS will have a critical role in providing and publicising the availability of guidance. One respondent suggested that regularly seeking out impartial guidance needs to become a social norm.

1.21 A number of respondents who are pension providers stated they would like to be able to offer their customers more help and direction in respect of their pensions, but were concerned that this would breach the boundary between advice and guidance.

1.22 A small number of respondents believed that regulated advice at the point of sale can educate consumers sufficiently to keep their pension under review without further advice, but other respondents argued it limited consumers to considering only those issues that were relevant at the time of the initial advice. Some consumer responses indicated that they did not feel any better informed by taking advice.

Our response

Regulated advice

The data we gathered from industry indicated that, in the period 1988 to 2012, 92% of non-workplace pension accounts were advised at point of sale. Since then, the proportion of advised sales has dropped to 72%.

We agree that advisers can play an important role in helping customers to achieve good outcome on their investment: suitable advice at the outset should minimise the risk of consumers incurring poor outcomes in the foreseeable future. However, advice at the point of sale may not necessarily ensure that the pension remains good value throughout the saver's lifetime. In fact, in response to Question 7, some respondents noted that most stakeholder pensions (SHP) were sold with advice but this does not mean the SHP remains the best product in the market for their current circumstances.

Not all consumers who receive advice at the point of sale will have an ongoing relationship with their adviser (nor was this a general requirement under pre RDR adviser commission arrangements) and consumers may be unaware of the need to monitor their pension, trusting that the advice given at the outset remains appropriate.

The Retail Distribution Review (RDR), which took effect from 2012, had far-reaching objectives to raise the quality of advice, increase adviser professionalism and reduce bias in product sales. The Financial Advice Market Review (FAMR), launched 2015, focused on two further themes vital to develop the market for advice and guidance: accessibility and affordability.

We recently conducted a Call for Input to launch our evaluation of the RDR and FAMR. We are reviewing their impact on the market to date: how consumers engage in the market and whether the industry delivers what consumers want and need. We also want to assess future trends that may have an impact on the future need and availability of services to consumers. and assessing how the market may develop in the future. We expect to publish our conclusions in Autumn 2020.

Financial guidance

With effect from January 2019, the Money and Pensions Service brought together three respected bodies of financial guidance: the Money Advice Service, The Pensions Advisory Service and Pension Wise into one organisation. Its mission is to ensure that all UK citizens can easily access the information they need to make the right financial decisions throughout their lives. MaPS will launch its National Strategy and three-year corporate plan in the Autumn.

What amounts to a personal recommendation

Shortly after we published our Discussion Paper, we also finalised some perimeter guidance on personal recommendations on retail investments. The guidance is designed to help firms that support consumers making their own investment decisions. We also published a consumer guide explaining what to expect from advice and guidance.

Q5 Do you have any comments about whether certain funds are seen by consumers as default arrangements and whether these should be subject to additional standards and protections?

1.23 The majority of respondents observed that default funds are only available in stakeholder pension products. They argued that default funds:

- are only appropriate where customer choice is not possible or required (and on this basis one respondent suggested that s32 buyout plans might be considered defaults as the product or underlying investment is chosen by the trustees of the customer's former occupational scheme)
- are not required in the market for non-workplace pensions as consumers or their advisers must choose a fund in order to invest.

1.24 Some respondents indicated that it is the responsibility of the provider to ensure that any investment and its delivery to customers should be subject to standards that ensure it is fit for its intended purpose.

1.25 Some respondents emphasised that the following should not be mistaken for defaults:

- funds that are popular with non-advised customers
- schemes with lifestyling - lifestyling only applies to a scheme if it is selected at the outset by the consumer or their adviser.

1.26 A small number of respondents were prepared to consider the introduction of default funds for non-advised consumers and noted that such defaults should be subject to protections. They noted that it would be important for default funds to be understood by consumers and it would still be necessary for consumers to actively select the fund.

1.27 Similarly, a small number of respondents cautioned against the use of caps on default funds, or in the market more generally as it places disproportionate emphasis on charges as the most important factor and may lead to the cheapest fund becoming a default fund, even if it is not labelled as such.

Our response

As we explain in Chapter 4 of the Feedback Statement, consumers face ever-increasing ranges of diverse investment options for their pension that make the choice of underlying investment complex. The investments determine what returns the customer might receive in the long term and the total level of charges they pay for their pension.

However, our consumer research highlighted the potential for non-advised consumers to make choices that do not match their needs and objectives when they set up their pension. It found that most non-advised consumers chose their pension based on the provider's brand recognition alone, many participants assumed they had selected a 'standard' investment option, and some did not know that investments underpin pensions.

Our research also found that consumers do not generally engage with their pension on an ongoing basis over the course of what is often a long-term investment. As a result, they do not consider whether their pension investments remain suitable and if they continue to offer value for money. This lack of ongoing engagement increases the risk that consumers do not consider changing the risk profile of their investments as they get closer to the age when they want to use their pension savings.

So, particularly for the benefit consumers who do not wish (or find it difficult) to engage with investment choices, we are seeking views on the possibility of requiring all providers to offer their customers one or more investment pathways, with lifestyling. We also invite views on the nature of any protections or criteria that should apply to the pathway(s).

Q6 Do you believe that demand-side weaknesses are present in the market for non-workplace pensions? Do they apply across the market or are they specific to particular consumer groups, products or sales channels?

1.28 Most respondents considered the demand-side in the non-workplace pensions market to be stronger than in the market for DC workplace pensions because NWP customers:

- make an active decision to be invested in a NWP,
- are more likely to seek advice (which should ensure suitability and may lead to greater engagement)

1.29 One respondent suggested that the growth of platform SIPPs is evidence of engagement as it shows a willingness to take new products.

1.30 Other respondents indicated that pockets of demand-side weakness may exist, particularly where charging structures are complex and / or consumers do not receive regular reviews from financial advisers.

1.31 To remedy these pockets of weaknesses, respondents suggested variously that:

- regulated advice needs to be more affordable and easily accessible
- providers communications with consumers should be clear, timely and engaging (some respondents suggest that annual statements and illustrations should show the impacts of charges)
- more financial education and guidance is needed (but one respondent noted that education and guidance will only appeal to the engaged and will not help engage consumers are unengaged)
- advisers' tools for comparing the market should be accessible to consumers.

Our response

Demand-side weaknesses

As explained in Chapter 3 of our Feedback Statement, most participants in our consumer research revealed low levels of engagement throughout their retirement saving journey. The research identified a clear distinction between wanting a pension and engaging in the process of getting one. Engagement at point of sale often extends only as far as the consumer acknowledging that it is 'sensible' to have a pension. Many participants assumed they had selected a 'standard' investment option, while some did not know that investments underpin pensions.

We also find that consumers do not generally engage with their pension on an ongoing basis over the course of what is often a long-term investment. In response to an earlier question, respondents told us that it is not particularly common for consumers to receive regulated advice throughout the duration of the pension. As a result, consumers do not consider whether their pension investments remain suitable and if they continue to offer value for money.

Provider communications

We agree that provider communications have the potential to prompt consumers to engage more with their pension. That is why chapter 4 of our Feedback Statement presents a package of different measures we would like to explore to make it easier for consumers to find, understand and compare charges, and switch easily where a suitable product offers better value.

Availability of advice and guidance

As mentioned above, MaPS will launch its National Strategy and three-year corporate plan in the Autumn and we aim to publish the conclusions from our review the impact of the RDR and FAMR in 2020.

Charges

Q7 Do you have any comments or evidence relating to our discussion of SHPs?

1.32 Some respondents suggested that stakeholder pensions no longer hold appeal or benefits in today's market for non-workplace pensions, but they offered different reasons for this:

- Comparable SIPPs and personal pensions can be provided more cheaply (and one respondent commented that stakeholder regulations do not allow for an easy transition to arrangements which could be more beneficial)
- SHPs are unsuitable for use in a post-RDR advised market
- SHPs rarely have the flexibility to offer pension freedoms

1.33 Consumer representatives, however, noted the that the protections offered by the stakeholder regulations continue to be valuable and argued for their extension to individual personal pensions.

1.34 While accepting that a wide array of fund choice can be a behavioural barrier for some consumers, many respondents cautioned against amending the stakeholder regulations for broader use, arguing that non-workplace pension product development is better left to the market forces. Instead, the focus should be on supporting consumers to engage and make appropriate decisions about their pensions.

Our response

We explained in our discussion paper our desire to understand whether providers have levelled up to the charge cap in stakeholder regulations rather than compete on charges.

Our analysis of charges paid by consumers in 2017 suggests this is not the case. The analysis also revealed that while many other NWP accounts incur lower charges than SHP accounts, many NWP accounts incur charges greater than the cap in the stakeholder regulations.

The stakeholder regulations are the responsibility of Government under powers granted by Parliament. The regulations require the provision of a default fund. Respondents tell us that they do not offer a default fund for any other NWP. Relatively few consumers know about SHPs and only 8 of 12 providers continue to offer them to new customers. Chapter 4 of our Feedback Statement seeks views on requiring providers to offer one or more investment pathways. These would particularly benefit consumers who do not wish (or find it difficult) to engage with investment choices and minimise the risk that these consumers invest in unsuitable investments.

Q8: Can you provide any relevant comments or evidence relating to charges on pre-2001 policies?

1.35 The majority of respondents recognised that charges on pre-2001 NWPs tend to be more numerous and complex than on more recent products. Exit charges and paid up charges were criticised by some respondents who called for a cap or ban on these for all NWP customers, not just those accessing the freedoms.

1.36 Most respondents emphasised that charges are not the only driver of value for money and that there will be cases where higher charges are justified, for instance, where the account has valuable benefits (eg guarantees), has special features or is invested in specialist funds. Value is broader than charges and, some respondents argued, ought to be considered over the life of the investment. Some respondents added that the cost of receiving advice should be taken into account when comparing pre-2001 policies with more modern contracts.

1.37 Many life insurer respondents explained how they have or will improve charges on pre-2001 accounts:

- post 2001 to become consistent with SHP charging
- post FG16/8: Fair treatment of long-standing customers in the life insurance sector (which re-emphasised the requirement for providers to improve governance, conduct product reviews and make changes to improve outcomes for customers) – cited examples of action include:
    - upgrading older accounts to more modern platform proposition
    - the reduction or removal of exit charges, paid-up charges, policy fees and initial units

1.38 In light of these actions, many respondents suggested that further governance controls at the expense of promoting consumer engagement would not be proportionate or in investors' long term best interests. Instead industry should do more to encourage and support consumers to engage with retirement savings and seek guidance or advice and considering alternatives

1.39 Some respondents provided thoughts on whether a charge cap should apply to pre-2001 NWPs, namely that:

- a cap should only be implemented where there is evidence of major market failure

- a cap is unlikely to be appropriate when changes prompted by FG16/8 have been embedded
- a cap sets a maximum permissible charge, which should not be confused with achieving value for money.

1.40 We also received one suggestion for each of the following:

- measures similar to the Independent Policy Board's (IPBs) analysis of charge impacts in the workplace market (and subsequent actions to reduce charges) could have a similarly positive effect in ensuring value for money if applied to non-workplace products with similar charging structures.
- AMCs on pre-2001 accounts should be capped at 1.5%

Our response

Our analysis revealed that charges are highly complex across the market. Products can have multiple charges at the product and the fund level. The basis on which charges are calculated differs between products and providers and there is no consistency in the names given to charges or the costs they are intended to cover. The result is that comparing the cost of products from different providers, if consumers wished to do so, is rarely possible.

We also found that pensions taken out before 2001 have average charges at the top end of the range of charges we observed in the market, including instances where the total of average mandatory product charges and average fund charges may be higher than caps or benchmarks on other pension products.

We recognise that the market for workplace and non-workplace pensions differ in some important ways that may or may not legitimately make it more expensive for providers to operate non-workplace pensions than workplace schemes.

Our data collection was not designed to determine if NWP charges are too high compared to the costs to providers (service and administration, but also, for pre RDR sales, cost of adviser commission) and the benefits and services to customers. For this reason, we explain in our Feedback Statement that it would not be appropriate to recommend direct price intervention such as a cap at this stage.

However, this charge disparity opens-up the concern that some consumers' pensions are at risk of being invested in products that are poor value for money, notwithstanding the recent improvements made by some life insurers.

We propose to decide the appropriate next steps on charges in the non-workplace pensions market after, and in the context of, our upcoming work on driving value for money across the pensions sector:

- developing a framework for assessing value for money (together with the Pensions Regulator) - publication of a consultation and discussion paper planned for Q1 2020.
- the review of IGC effectiveness (which will ask questions around how IGCs really achieve value for money) – due to conclude in 2020.

Q9 How might we and industry improve non-workplace customers' awareness of the charges they may or will incur and the impact of those charges on their pension savings?

1.41 Some respondents suggested charges might be better understood if firms showed consumers the charges in monetary terms and also the impact of those charges on their pension savings. Some respondents suggested firms should also show consumers the (potentially greater) impact that other factors will have on their pension savings.

1.42 Opinions were divided on whether this charge information should be included in Statutory Money Purchase Illustrations (sometimes known as annual statements): some respondents commented on the low levels of engagement with these documents, while others indicate that, in response to FG16/8, they have revised their statements in ways that make charges more transparent.

1.43 A small number of respondents suggested that the pensions dashboard, when developed, will enhance charge awareness.

1.44 Some respondents warned that efforts to support comparability should not focus on charges alone, but also fund choice and performance and any guarantees or special features which, they claim, are likely to have a greater impact on the value of consumers' pension savings than charges.

1.45 Some respondents opposed the suggestion of additional disclosure unless this could be shown to materially change behaviour, particularly as a number of disclosure initiatives were introduced only recently and it is too early to see the impact of these. Respondents mentioned in particular the revisions to firms' disclosures following FG16/8 and MiFID disclosures (where they apply to platforms or firms that have voluntarily extended them to their pensions).

1.46 Some respondents suggested that signalling the value and availability of regulated advice or impartial guidance would be more beneficial for consumers than charge disclosures. Other respondents, noting that many customers no longer have access to a financial adviser explained how they are introducing enhanced support beyond transactional processing (by phone and online) to foster a sense of engagement.

Our response

Our consumer research found that charge awareness is low among NWP customers. Half of the consumer research participants were unaware they were paying charges on their pension, others assumed the charges were low and / or similar across all products and providers.

We agree that charges are only one factor in determining value for money but it is a component that is poorly understood and difficult to identify. So, in chapter 4 of our Feedback Statement we set out our ideas for how a package of different measures could work together to make it easier for consumers to find, understand and compare charges. We invite stakeholders' views and welcome alternative suggestions for how the issues we have identified could be addressed.

Q10 Do you have any comments on how industry might better support consumer choice (including monitoring and identifying

when it might be appropriate to switch to a more competitive product and/or provider)?

1.47 Respondents broadly agreed that it should be easier for consumers to identify and compare charges on their pensions. There was less consensus over the means for achieving this.

1.48 Some respondents' suggestions concerned disclosures from providers to consumers, delivered in mediums that consumers want, eg email, videos, apps and podcasts, and at times that when receptivity is likely to be high (instead of, or in addition to, annually and at point of sale):

- charges and their impact to be shown in annual benefit statements
- separate standalone disclosures of all charges and their aggregate impact
- standardised disclosure - costs and charges to be shown in the same way by all providers, using consistent terminology across the industry

1.49 Many respondents were concerned that charge disclosures could lead customers to:

- focus on price at the expense of other factors such as investment performance, fund choice or customer service
- make (frequent) charge driven switches, with the risk that they lose investment growth and valuable product features (eg guaranteed annuity rates and bonuses).

1.50 Noting that some consumers may not be engaged, fully informed, or have the expertise or ability to make key decisions about their pension, some respondents suggested the keys to better consumer understanding are clear information, impartial guidance (for advised and non-advised clients) and regulated financial advice. So, instead of disclosures to consumers, they suggested:

- Requiring firms to publish charges and performance data, regularly and consistently
- Promoting and signposting impartial guidance (MaPS)
- Provider tools, support, and guidance to assist consumers who do not wish to, or are unable to, take regulated financial advice
- Signposting to the dashboard (in due course) – respondents were confident that dashboards will help consumers identify and monitor their pension arrangements.
- Affordable and / or technology-enabled advice

1.51 Some respondents indicated they would like to encourage clients to shop around and potentially switch to a different fund, product or provider (when it is in the customer's best interest to do so) but they fear this would be deemed a personal recommendation rather than guidance.

1.52 A number of respondents commented that many longstanding and/or disengaged customers would achieve better outcomes, including reduced charges, if firms were able to transfer them en-masse into more competitive modern products or platforms. Pension providers explained that gaining consents from customers to do this is challenging and that FCA regulations make it difficult to conduct these transfers without customer consent.

Our response

Charge disclosures

In chapter 4 of our Feedback Statement, we outline some disclosure based ideas to reduce charge complexity and promote charge transparency and reduce charge complexity that we would like to explore with stakeholders.

Access to advice and guidance

It is important that those involved in the sector recognise the generally low levels of understanding and engagement and provide appropriate levels of support to consumers as they make important decisions regarding their pensions.

We are keen to support any efforts by MaPS to improve the levels of access to, and engagement with, the various sources of guidance.

While much good advice is available, we know that there are issues both with the quality of some advice and with the affordability and availability of advice for the mass market. We are optimistic that, over time, innovations in technology may help to bring good-quality, affordable advice services for some aspects of pensions to a greater proportion of the population.

Transfers without consent

We do not have dedicated Handbook rules dealing with these types of transfer arrangements, but we would carefully supervise any proposal to conduct such a transfer, based on our Principles for Business.

Transfers without consent raise legal risks for firms as in many cases such action would represent a breach of the original contract with the consumer, as well as questions of enforceability in respect of the new contracts. If a provider wishes to proceed with this course of action, it is their responsibility to consider and seek legal advice on the relevant legal risks and how to manage these.

Q11 Can you provide any evidence or examples of where competition is not working well on non-workplace pensions charges (applicable across the market or specific to particular products)?

1.53 Most of the responses to this question repeated issues raised in response to earlier questions so they are not recorded here.

1.54 Additionally, some respondents observed that it is difficult for customers to compare the market as there is no directory of reputable pension providers or market comparison tools. Consequently, and particularly for non-advised customers who are not confident in picking their own investments, it is difficult for consumers to find the best deal. With this in mind, one respondent queried whether there enough simple products in the market for these customers.

1.55 A small number of respondents commented that there is less competition for lower value business. They suggested that, by boosting engagement, the pensions dashboard might make it easier to compete for business which was previously considered uneconomic.

Our response

Consumers not confident in picking their own investments

Our response to Q5, above, and chapter 4 of our Feedback Statement explain that we are seeking views on the possibility of requiring all providers to offer their customers one or more investment pathways, with lifestyling. We also invite views on the nature of any protections or criteria that should apply to firms' one or more investment pathways.

Dashboards

Dashboards will be online tools that allow consumers to view information about all their pension savings in one place at a time of their choosing. We consider pensions dashboards have the potential to better engage consumers with their pensions, and reconnect consumers with lost pension pots.

In April 2019, the Government published a response document:

- confirming that MaPS will bring together an industry delivery group to drive and maintain progress on dashboards
- urging industry to start to prepare their data to be ready in a 3-4 year timeframe, to work with the industry delivery group to set data standards and supply data

We will continue to work alongside our colleagues in Government to ensure that dashboards are capable of delivering fair outcomes for consumers.

Next steps

Q12: We would like to understand whether and how providers' oversight arrangements differ between workplace and non-workplace pensions.

1.56 The majority of pension provider respondents explained that their legal, risk, governance and compliance structures apply equally and consistently to both workplace and non-workplace pensions. Independent oversight of workplace pension schemes by IGCs is an additional layer of governance that applies only to workplace schemes because it is an explicit requirement of FCA rules.

1.57 Trade bodies highlighted that the workplace dynamics that IGCs are designed to mitigate do not exist in non-workplace pensions: IGCs represent the interests of employees who were placed into a pension, without their active consent. A small number of respondents added that they perceived less need for IGC style governance in the NWP market as consumers will generally be more engaged, perhaps better informed and more likely to be supported by regulated financial advice.

Q13: We would like to hear views on the merits of enhancing oversight arrangements for non-workplace pensions in the event that harm is identified.

1.58 Many respondents indicated that as a result of FG16/8, the Senior Managers and Certification Regime and MiFID II, governance arrangements for all pensions (including NWPs) have been enhanced since the introduction of IGCs in the workplace pensions market. Additional oversight would therefore be inappropriate or should not be considered until the impact of the other arrangements is known.

1.59 These respondents claimed that the addition of further oversight via an IGC would increase costs for consumers without leading to better outcomes. Others worried an extension of the IGC remit would dilute its level of oversight and that, as auto-enrolment will soon account for the vast majority of pension savers, it is important that IGCs retain that focus.

1.60 Only one respondent recommended that NWPs should come under the jurisdiction of IGCs, irrespective of whether harm has been identified.

1.61 Some respondents recognised there may be a case for the proportionate extension of IGCs in the non-workplace pensions market but, most respondents said, only if there is evidence that the same inertia and harms exist that prompted their introduction for workplace pensions.

1.62 Any extension would, however, need to carefully consider the role intermediaries play, because they also have a part to play in determining value for money for their clients.

1.63 Some respondents suggested alternatives to IGC extension:

- granting firms flexibility over how they implement and demonstrate additional oversights
- giving accountability to the Board or a single, senior Executive for overseeing value for money governance
- identifying and implementing competition-based solutions

Our response

Our Feedback Statement outlines that we are considering remedies in several areas to protect consumers from potential harm and to support greater competition in the market for non-workplace pensions.

We consider that (independent) governance may be an additional part of the answer to the harms identified: in other markets where consumers are not well placed to exert competitive pressure, we have previously created independent governance to challenge firms on value for money issues.

Therefore, we will consider whether and to what extent to introduce independent governance for non-workplace pensions in the context of the FCA’s 2020 work on value for money and IGC effectiveness.

Q14 In the context of the potential harms in this market, are there any other interventions that you think we should consider? Please explain what the impact might be and why such remedies would be appropriate.

1.64 In addition to those mentioned in response to earlier questions, suggestions included:

- promoting take up of impartial guidance even before consumers engage with providers or regulated advisers, as it can empower customers to know the questions to ask and gives greater awareness and confidence in the pensions market

- implementation of default guidance on pension options and pension transfers
- managing the risk that switching to a non-workplace arrangement might be associated with a pension scam
- a pension switch guarantee
- addressing the risks of unregulated investments associated with the SIPP market

Our response

Take up of guidance

As mentioned earlier in this paper, we are keen to support any efforts by MaPS to improve the levels of access to and engagement with the various sources of guidance.

Scams

We and the TPR continue to support to Project Bloom – the multi-agency collaborative group on pension scams. The Bloom Strategic Action plan includes:

- consumer awareness – including the joint FCA/TPR ScamSmart campaign
- intelligence-sharing
- collaborative regulatory and enforcement activity
- industry-led interventions

Switch guarantee

We await industry progress in improving the switching process through the STAR venture. We strongly encourage firms in the retail investment and pension sectors to get behind this initiative.

Unregulated investments

Non-standard investments (which can include unregulated investments) are often, but not always, high risk, illiquid investments and are generally only suitable for sophisticated investors who are willing to accept the level of risk involved.

Our rules place due diligence responsibilities on SIPP operators. Historically, we had concerns that firms were not meeting our expectations. This prompted considerable work including thematic reviews, the publication of guidance and a Dear CEO letter. Our most recent data gathering and supervisory activity reveals that SIPP operators have adapted their due diligence to meet our expectations, or have voluntarily exited the market as a result of our scrutiny.

Q15 Do you have any other comments on the matters discussed in this Discussion Paper?

1.65 Most of the responses to this question repeated issues raised in response to earlier questions so they are not recorded here.

1.66 One respondent noted that the importance of promoting MaPS and making clear who consumers can turn to for free guidance. They added that part of that guidance will explain why obtaining regulated financial advice would benefit the individual.

1.67 One respondent urged the FCA to take a balanced approach to disclosure that encourages confidence in pensions saving. They considered the projection rates for Key Features Illustrations deter some clients investing in pensions at all because it does not appear that they will be good value investments.

Our response

Consumer journey

In our joint strategy for regulating the sector, we committed to undertake a joint review of the consumer pensions journey, examining how disclosures and information from pension schemes and providers combine with available guidance and advice services to help consumers make well-informed decisions. This work will be strategic in nature, taking a step back and considering all the previous and ongoing work in this space. Our strategy also committed to providing continuing support to MaPS.

Key Features Illustrations

The maximum growth rates for projections are reviewed every 4 years, based on economic research that is independently peer reviewed. The most recent consultation took place in 2017.

Annex 2 - Data

Introduction

2.1 This annex provides a description of the data used for the analysis supporting the Feedback Statement (FS) 19/5. We first provide an overview of the data we used and then discuss data issues and other relevant remarks.

The data we used in our analysis

2.2 We sent a data request to all providers with the relevant permissions to establish, operate, or wind-up a non-workplace pension (NWP).

2.3 Our data request is divided into two sections, A and B.

2.4 Through Section A, we collected aggregate data on the number of accounts and assets under administration (AUA) broken down by type of product. We received complete responses to Section A from 117 providers that used permissions and had active NWP accounts under management.

2.5 Through Section B, we collected data on:[1]

- Number of accounts and AUA for all providers by product type (eg individual personal pensions, stakeholder pensions).
- Most recent charges 'ratecards' for NWP schemes.
- Scheme level information, including if applicable opening date, type of product, number of accounts, AUA, and possible benefits associated with the scheme.
- Actual charges paid in 2017 by consumers of the NWP product.
- Transfer times for switching provider.

2.6 We asked providers with the relevant permissions and at least 1,500 accounts or £35m in AUA to complete Section B. As some of the providers who completed Section A had assets and accounts which fall below our size threshold, we received complete responses to Section B from 106 providers.

2.7 Section B data are broken down by groups of consumers. These groups are based on when consumers have joined their pension (before 2001, 2001-2012, after 2012), the size of their pot (smaller than £10,000, between £10,000 and £50,000, larger than £50,000), and whether they have received advice at point of sale.

2.8 The data cover all non-workplace pensions that providers operate which were available to consumers at any point in the period between 1 July 1988 and 31 December 2017, including those pension schemes that are no longer open to new members; all NWP accounts in accumulation in 2017.

2.9 The data on actual charges include four types of charges that consumers may pay for their non-workplace pension: mandatory product charges, contingent product charges, fund charges, and some advice charges.

2.10 Mandatory product charges are charged by the pension provider for providing a non-workplace pension and include mainly administration charges that all consumers generally pay. Most of these are ongoing charges, while others are one-off charges (eg setup fee). In particular, mandatory product charges include:

[1] Through Section B we also collected qualitative information on providers' business models.

- Scheme / Product Annual Management Charge (AMC): this charge may cover a combination of the sales charge, administration and product management costs. For the purposes of our analysis, the AMC on the scheme / product is separate from fund management expenses.
- Regular fixed fees: these include ongoing regular fixed fees such as a monthly policy fee.
- Set-up fee: this is generally a one-time administration fee related to opening an account.
- Platform fee: this charge includes ongoing general administration fees for accessing a platform.
- Allocation rate: this is the amount of premium that is not invested and kept as a fee.

2.11 Contingent product charges are also charged by the pension provider but are only paid by consumers that take certain actions, such as dealing in shares or exit fees for surrendering the policy before the end of the term. In particular, contingent product charges include:

- Dealing charge: this is generally an administration fee related to the sale or purchase of an investment product.
- Bid / offer spread: this is a charge applied to the difference between the buying and selling price of a unit.
- Exit / transfer out fee: these are fees imposed upon transfers / surrenders of policies before the end of the term.
- Custody charge: this is a fee that can be charged to hold securities in safekeeping for an investor.

2.12 Fund charges are charged by the fund manager for running the funds the pension is invested in. These charges include the ongoing charge figure (OCF) and other additional charges, such as fund transaction charges and fund performance charges.

2.13 Advice charges. Since RDR in 2012, these are charged by regulated advisers for the cost of advice. Before RDR, providers paid commission to advisers and recovered that cost from the consumer through product charges. Note that for pensions sold before RDR, our analysis incorporates the commission that was charged for advice, as this cost is necessarily included in product charges for those pensions. For accounts sold after RDR, we recognise that the cost of advice, at point of sale and often on an ongoing basis, is an additional cost that consumers pay to advisers.

Data issues and other remarks

2.14 We collected scheme-level data from NWP providers on product charges and on fund charges for their five most popular funds when applicable.[2]

2.15 Some providers included fund charges within their stated product AMC charges. This means that these providers' product charges are close to the whole cost incurred by consumers for their non-workplace pensions. We sent out an additional clarification question to all providers who completed Section B asking if they had included fund charges within their product AMC charges. We call these providers Set 1. These

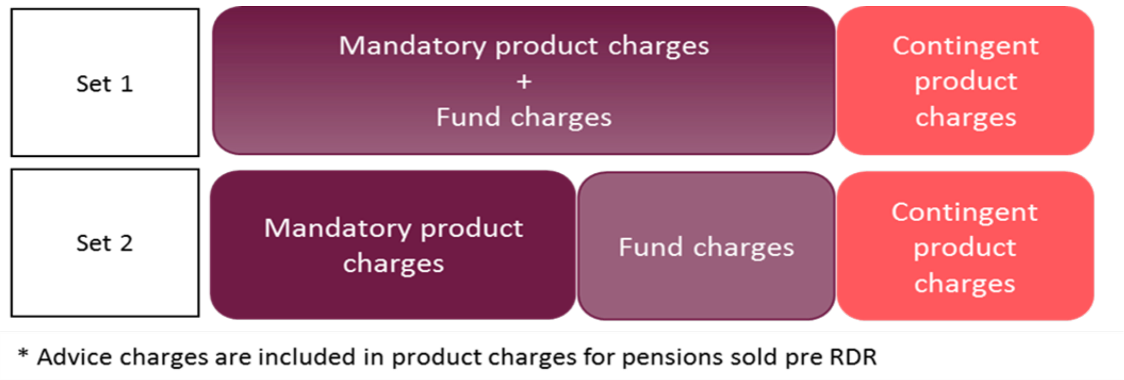
[2] We did not collect transaction level data nor data on costs and profits. This would have been disproportionate in terms of the time and cost before diagnosing the potential for harm.

cover around half of the market in terms of AUA and more than a half of the market in terms of accounts.

2.16 Other providers have reported their product charges and some information on fund charges separately. In order to estimate the total cost to the consumer we needed to calculate an indicative figure of the cost of investing in funds. In Section B, we asked for the OCF and AUA of providers' top 5 most popular funds, for each scheme, broken down into the consumer groups. By taking the weighted average OCF we calculated an estimate for the average fund charge for each scheme and consumer group, which we added to the product charge. We recognise that the whole cost incurred by all of these providers' customers could be higher. We call these providers Set 2. These cover around half of the market in terms of AUA and around one third of the market in terms of accounts.[3]

2.17 The difference in the way firms provide data on fund charges affects how we present and interpret our results. For some products, for example IPPs, the top five most popular investments are a large proportion of total fund investment. Our results should be as accurate as Set 1. For other products, such as complex SIPPs, the top 5 funds are less representative – as a result, we need to interpret our results more cautiously. In FS 19/5 and the annexes, we therefore present our results for both sets separately. Unlike other splits of our data (eg pot size, joining period), these sets were not designed to be part of our analysis and we need to be careful in drawing comparisons between them.

Figure 2.1: Different ways providers record their charges



2.18 As we set out above, we have information on the number of accounts and the value of AUA from our two responses: Section A (sent to all firms with permissions) and Section B (sent to all firms with permissions and above a minimum size). Furthermore, in Section B we ask for information at both the aggregate product level and broken down by consumer groups.

2.19 The market overview data are consistent across Section A and Section B datasets. However, when discussing the size of the market we recognise some limitations:

- For firms which did not meet the threshold for Section B, we have overall AUA and number of accounts, but we do not have this information by advised status, type of SIPP, or whether the product is open to new members. This only affects a few firms, which account for a very small proportion of the market (less than 0.1% in terms of both AUA and number of accounts).

[3] A few providers have not reported their charging structure or have reported a charging structure that is different from the two described in Figure 2.1, ie their charging structure has been reported to vary by scheme type. To be able to make meaningful comparisons, we decided to exclude these data from our analysis. These providers account for around 10% of our sample by AUA and number of accounts.

- Some providers share a common parent company. In these instances, we aggregate the providers together when appropriate (for example, when we calculate measures of market concentration).

2.20 The data collected include actual charges for 2017. While we do not expect our snapshot of mandatory product charges to change much from year to year, we recognise that contingent product charges might be different if collected for example in 2016 or 2018. This is because contingent charges are influenced by consumer behaviour (ie the more you use, the more you pay). However, mandatory product charges and fund charges, which are less volatile relative to AUA, make up the bulk of charges consumers pay. We therefore think our results are reasonably representative.

2.21 There are cases where providers have submitted VAT inconsistently, because VAT varies between types of schemes, charges, consumers (eg EU vs non-EU residents), and investments. We followed up with some providers and worked to ensure data comparability where possible.

2.22 The dataset we used for our analysis is based on complete cross-sectional data for each consumer group, product type, and provider as it includes product-level information for different periods (ie before 2001, between 2001 and 2012, after 2012). However, for some schemes, we found some data to be inconsistent or missing in regard to AUA, product characteristics or charges paid. We also note that not all consumers might pay the same types of charges or, in some instances, we might not have data on all types of charges consumers pay (ie the OCF not being available for SIPPs).

2.23 When calculating our charges in relation to AUA, we acknowledge that AUA fluctuates throughout the year, both because of investment returns and because of contributions and withdrawals. This is why we take the average AUA in order have more robust measure for charges relative to AUA.

2.24 For transfer times, of the 106 providers who completed responses to Section B of our data request, around a quarter of providers did not provide data, did not monitor average transfer times, or reported incomparable data or estimates. Of the providers who reported data, 23 providers reported average transfer times for cash transfers, re-registration of assets or both categories.

Annex 3 - Charges level and variation

Introduction

3.1 This annex provides more details on our analysis of the level of and variation in charges observed in the UK market for non-workplace pensions.

Data

3.2 The source data for our analysis are the data aggregated at consumer group level outlined in Annex 2 on data.

3.3 The outcome variables in this analysis are mandatory product charges, contingent product charges, and fund charges (see Annex 2 for more details on the nature of the charges we have considered).

3.4 The analysis is based on the actual data collected from providers, after filtering for extreme charges (see paragraphs 3.14-3.17 of this annex for more details).

Findings and methodology

3.5 This section explains how we estimate:

- The average level of charges for different product types depending on when the consumer has joined the scheme and the value of a consumer's pot size.
- The variation in charges for different product types depending on when the consumer has joined the scheme and the value of a consumer's pot size.
- The potential impact of charge variation on the value of a consumer's pot size.

Level of charges

3.6 We estimate total charges including product charges and fund charges, as a percentage of the total pot. Our estimates are based on the actual charges consumers had paid over 2017, and we use the consumers' pot size to turn those into percentage charges.

3.7 We find that average total charges vary significantly depending on when consumers joined their pension scheme (see Figures below). In particular, consumers who joined before RDR in 2012 pay on average higher total charges (except for SIPP complex products and FSAVC for Set 2 of providers).

3.8 Some of the higher average figures we see for older schemes may be partly due to adviser commission paid before RDR. So the changes RDR introduced may have contributed to the lowered charges we find after 2012. Our data do not tell us whether those charges are due to older charging structures being higher.

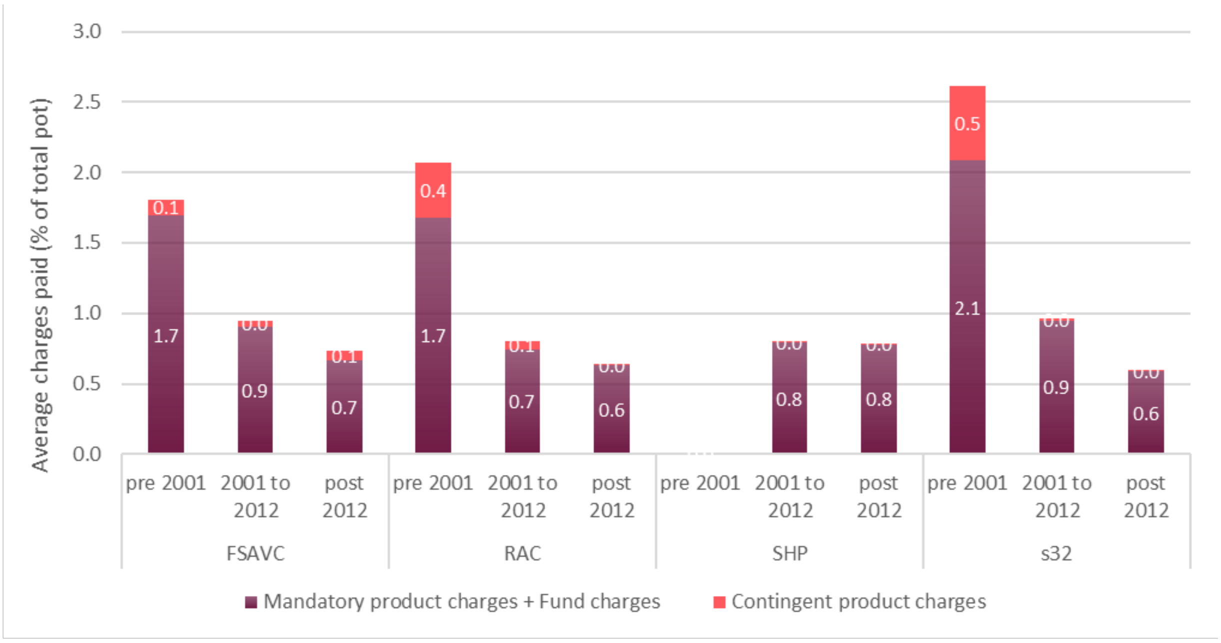
Figure 3.1: Average total charges by joining period for IPPs and SIPPs

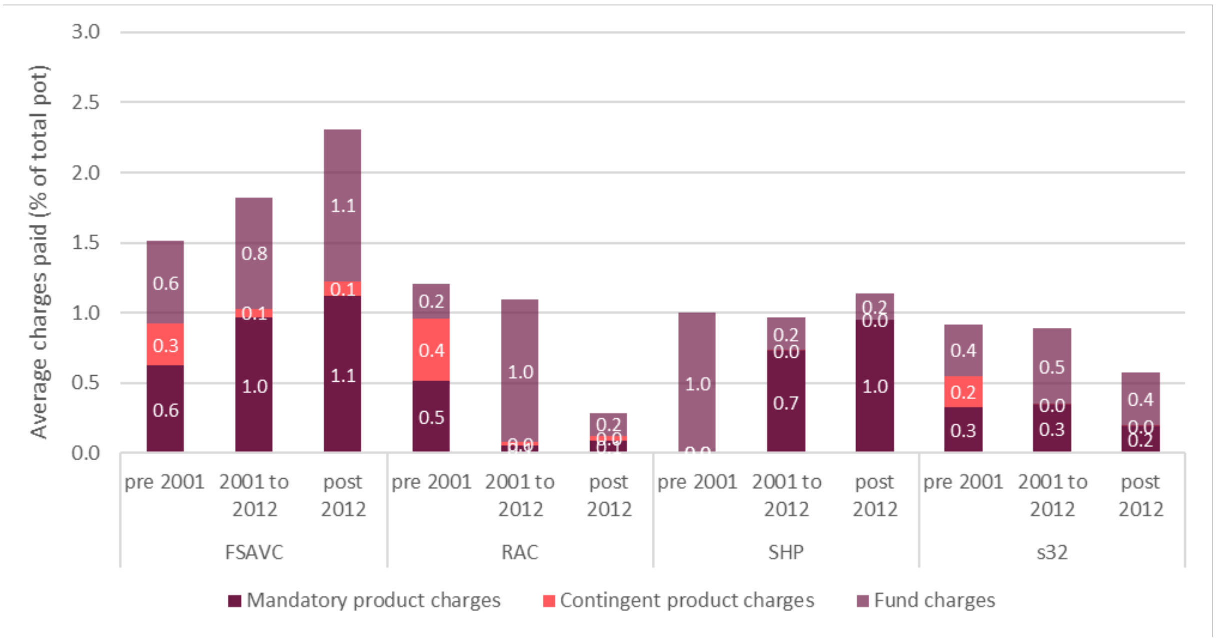
Set 1 (top chart), Set 2 (bottom chart)

Note: SIPPs products pre 2001 make a few thousands of accounts. Source: FCA analysis of non-workplace pensions data collected from 106 providers.

Figure 3.2: Average total charges by joining period for FSAVCs, RACs, SHPs, and s32 buyouts

Set 1 (top chart), Set 2 (bottom chart)



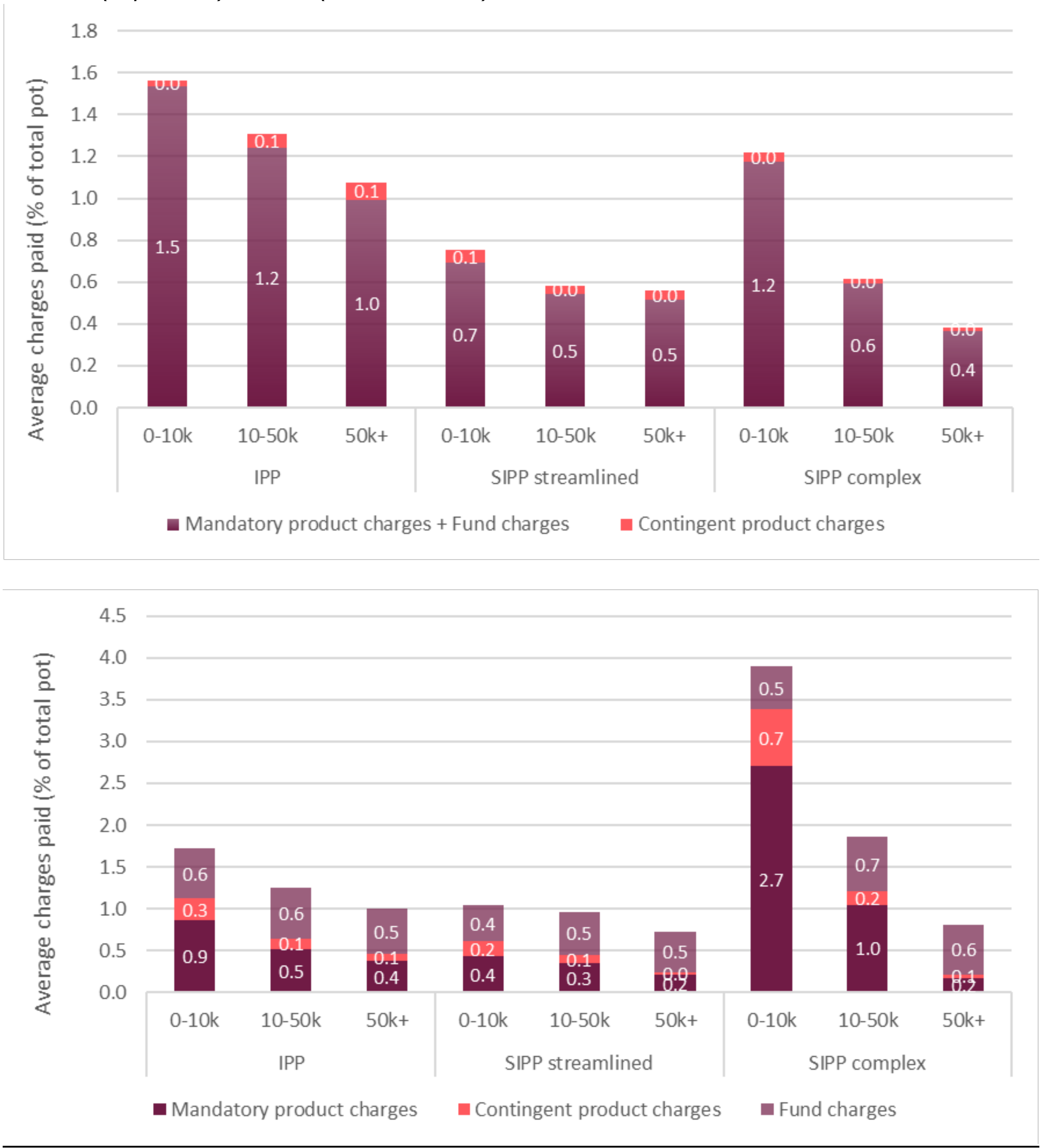


Source: FCA analysis of non-workplace pensions data collected from 106 providers

3.9 We also find that consumers with smaller pots pay on average higher total charges. In particular, we see that, for our Set 2 of providers, consumers with complex SIPPs and pots smaller than £10,000 pay on average the highest charges. These consumers account for 10% of SIPP complex products for this set (around 16,000 accounts). We recognise that these accounts may represent only a proportion of some consumers' retirement savings and that consumers may be consciously holding that in high risk SIPPs. However, we remain concerned that there can be consumers for which these products are at risk of being poor value for money. We propose to decide the appropriate next steps on charges after, and in the context of, our upcoming work on driving value for money across the pensions sector.

Figure 3.3: Average total charges by pot size for IPPs and SIPPs

Set 1 (top chart), Set 2 (bottom chart)



Source: FCA analysis of non-workplace pensions data collected from 106 providers

Figure 3.4: Average total charges by pot size for FSAVCs, RACs, SHPs, and s32 buyouts

Set 1 (top chart), Set 2 (bottom chart)

Source: FCA analysis of non-workplace pensions data collected from 106 providers

3.10 Our data also enable us to look at charges consumers pay based on whether they were advised at point of sale, when they joined their pension, and the size of their pot. In particular, we found that:

- For IPPs (Set 1), consumers who joined their pension before 2001 pay on average total charges of around 2.2% if they have pots smaller than 10,000, and of around 1.6% (Set 1) if they have pots from £10,000 to £50,000. These consumers were advised at point of sale and cover more than 40% of IPPs within this Set 1 of providers.

- For complex SIPPs (both Set 1 and Set 2), charge figures are particularly high for consumers who did not receive advice at point of sale and have pots smaller than £10,000. These consumers pay on average total charges of 4.9% (Set 1) and 4.5% (Set 2) if they joined between 2001 and 2012, and of around 3.3% (Set 1) and 5.6%(Set 2) if they joined after 2012. These consumers cover around 2% of SIPP complex accounts within the market (less than 5,000 accounts).

3.11 We recognise that average charge levels for complex SIPP investors with small pots are notably higher than for other groups. As discussed above, providers within Set 2 have reported their product charges and fund charges for their top five most popular investments, which allowed us to calculate an indicative figure of the cost of investing in funds. For products like IPPs, the top five most popular investments make a good portion of all funds invested in IPPs. For SIPP complex, the top five most popular funds make less than 20% of all funds invested in complex SIPPs. We therefore think our indicative figures for complex SIPP products might be less representative of the charges consumers end up paying.

3.12 We also note that some of the higher average figures we found are likely to reflect the different ways that providers charge. For example, some providers levy charges as a percentage of the value invested. Other providers do not charge different percentages for different pot sizes but instead charge flat fees regardless of the pot size. Such charges will decrease in percentage terms as the pot size increases.

3.13 Different charges might also reflect the different quality of a product or service, such as performance, additional benefits, options or guarantees. The data we collected do not include this information nor was our analysis designed to determine if any charge is too high.

3.14 To estimate average charges by joining period and pot size, we use the following methodology. We collapse our data to make sure we have one representative entry for each provider and product type combination. This is because we acknowledge that some providers can offer a multitude of products while others only offer a few products, which in turn risks to bias our estimates.

3.15 We then take our sample of provider and scheme type level data and apply some filters. We exclude cases where recorded data indicate a potential issue (for instance, we drop entries with charges higher than 10% of their pot size and entries with negative charges).[4] These filters still leave us with observations covering more than 90% of the market in terms of AUA and number of accounts. The filters remove the effect of outliers and reduce the risk of biasing our analysis of variation in charges.

3.16 To obtain the level of charges, we finally calculate the average percentage charge relative to the AUA for each observation. To avoid the risk of missing out mid-year contributions and withdrawals, we use the average AUA for 2017 for each observation.

3.17 We finally check whether our charge estimates are driven by unit-link funds. The data gathered from providers allow us to filter schemes by categories labelled as ‘unit linked’ and ‘unit linked and unitised with profits’. These filters do not materially affect our results.

3.18 Note that this methodology to estimate average level of charges also applies to Figure 3.7 of FS 19/5 (SHP - average total charges by joining period).

[4] Note that in calculating our average charges we do include discounts when reported.

Variation in charges

3.19 We then estimate the distribution of charges within similar groups of consumers.

3.20 Figures in this section show the distribution of charges by joining period and by pot size. Each box in each figure corresponds to the charge distribution for a specific cohort of consumers and shows five summary statistics:

- The lowest provider average charge consumers pay.
- The lower-quartile provider average charge, this is the charges at which 25% of the consumers have their pension with providers where the average is the same or lower and 75% with providers where the average is the same or higher.
- The median provider average charge, this is the mid-point of the distribution where half of the consumers have their pension with providers where the average is the same or more and half are with providers where the average is the same or less.
- The upper-quartile provider average charge, this is the charge at which 75% of the consumers have their pension with providers where the average is the same or lower and 25% with providers where the average is the same or higher.
- The maximum provider average charge consumers pay.

3.21 To ensure that average charges based on more accounts receive proportionally more weight in the estimate, we weight each observation by number of accounts within each provider, product type, and group of consumers.

3.22 We think the variation in charges is well shown by the interquartile range (IQR). This is the difference between the upper and the lower quartile of the distribution, meaning that 50% of the observations in the distribution fall within the IQR.

3.23 Compared to other statistical measures of dispersion (eg range, variance, standard deviation), the IQR eliminates the influence of extreme scores and therefore further mitigates the risk that our figures are biased because of outliers. It is also easier to interpret with respect to the variance and the standard deviation.

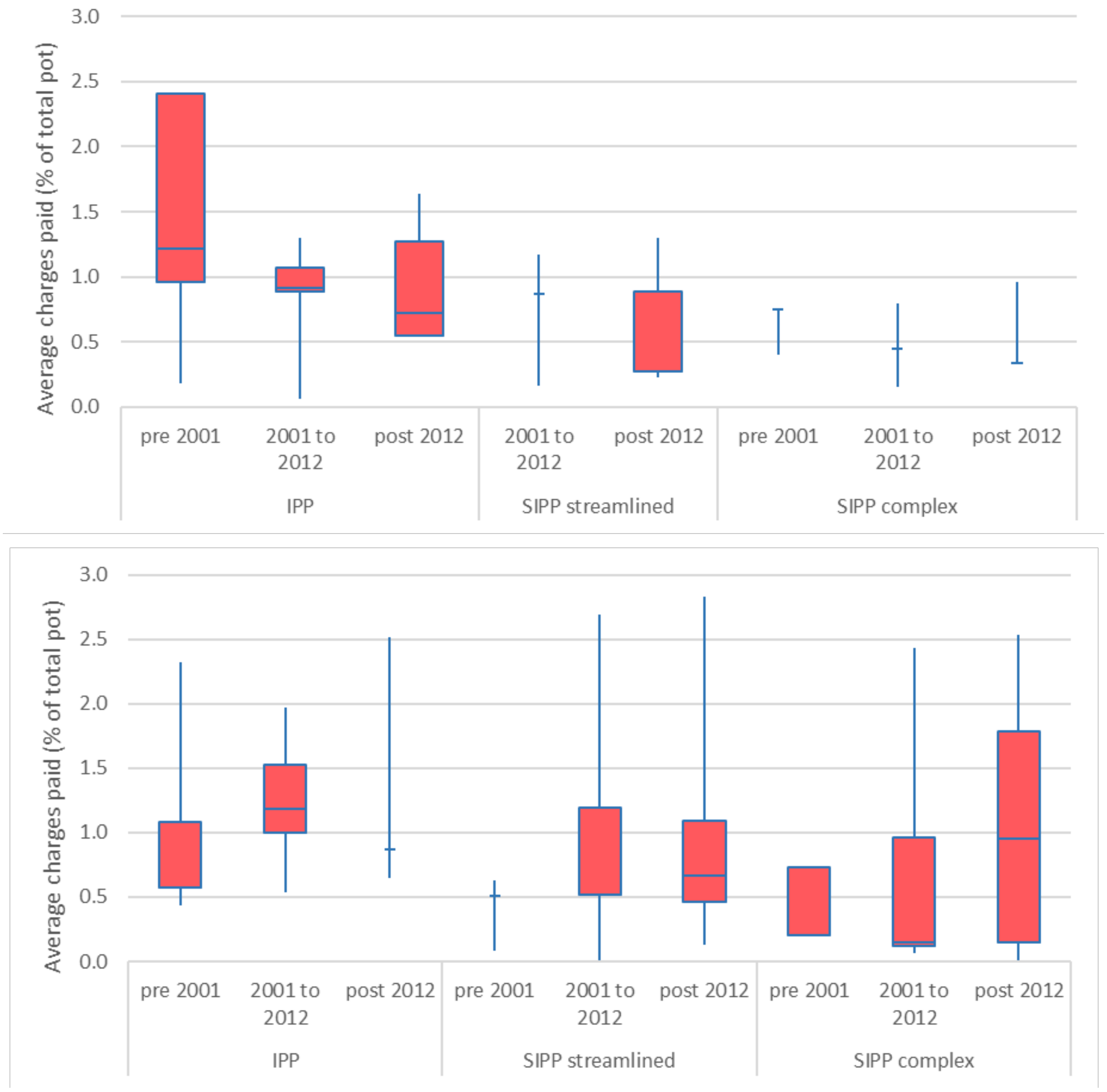
3.24 However, there are some cases where our data do not show the lower and the upper quartiles (ie the coloured box is ‘missing’ - eg Set 1, SIPP complex, pre 2001). This occurs when the upper and lower quartile charges coincide for a specific consumer group. In our analysis, we weight the data by number of accounts so when a major provider makes up a substantial percentage of a consumer group figures this provider’s charges tend to dominate our results.

3.25 There are also other cases in which the median might coincide with the maximum charge consumers might pay (eg Set 1, SIPP complex pre 2001) or with the minimum (eg Set 1, SIPP complex post 2012).

3.26 We found that there is substantial variation of charges by joining period and pot size.

Figure 3.5: Distribution of total charges by joining period for IPPs and SIPPs

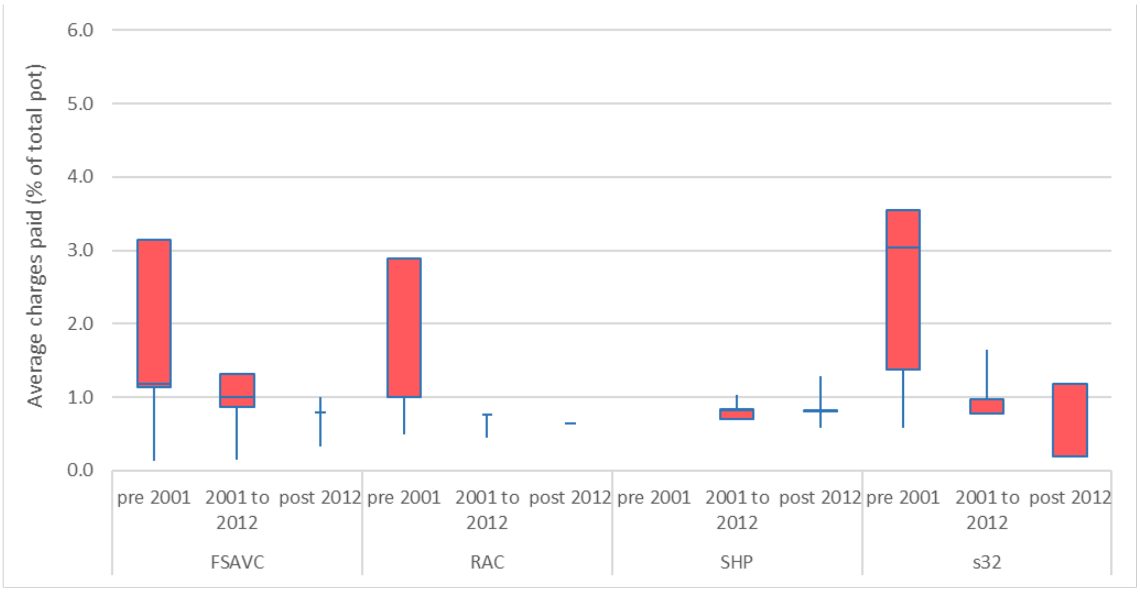
Set 1 (top chart), Set 2 (bottom chart)

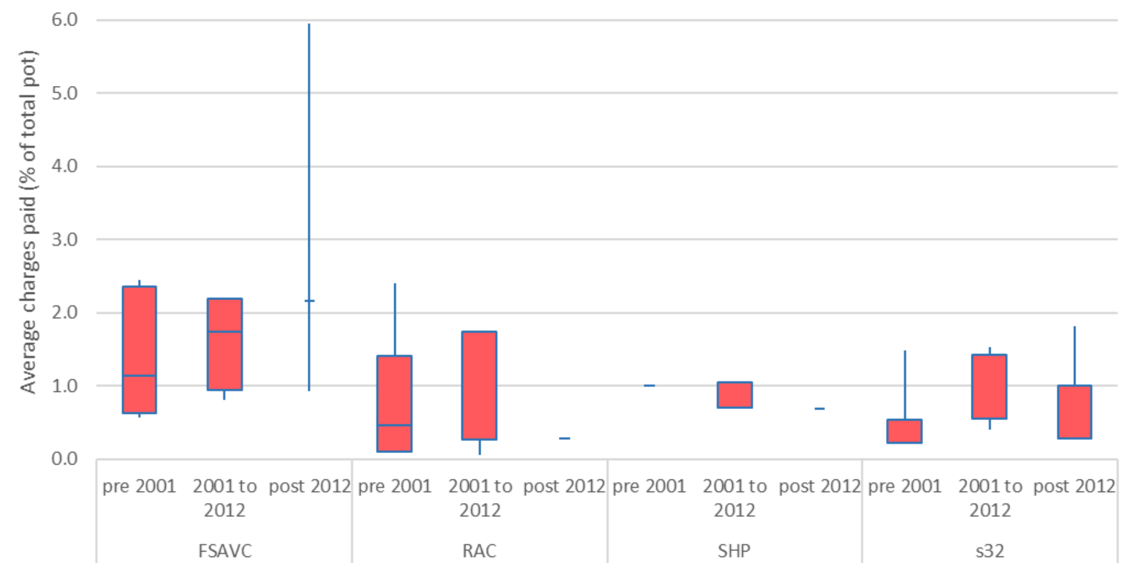


Source: FCA analysis of non-workplace pensions data collected from 106 providers

Figure 3.6: Distribution of total charges by joining period for FSAVCs, RACs, s32 buyouts, and SHPs

Set 1 (top chart), Set 2 (bottom chart)

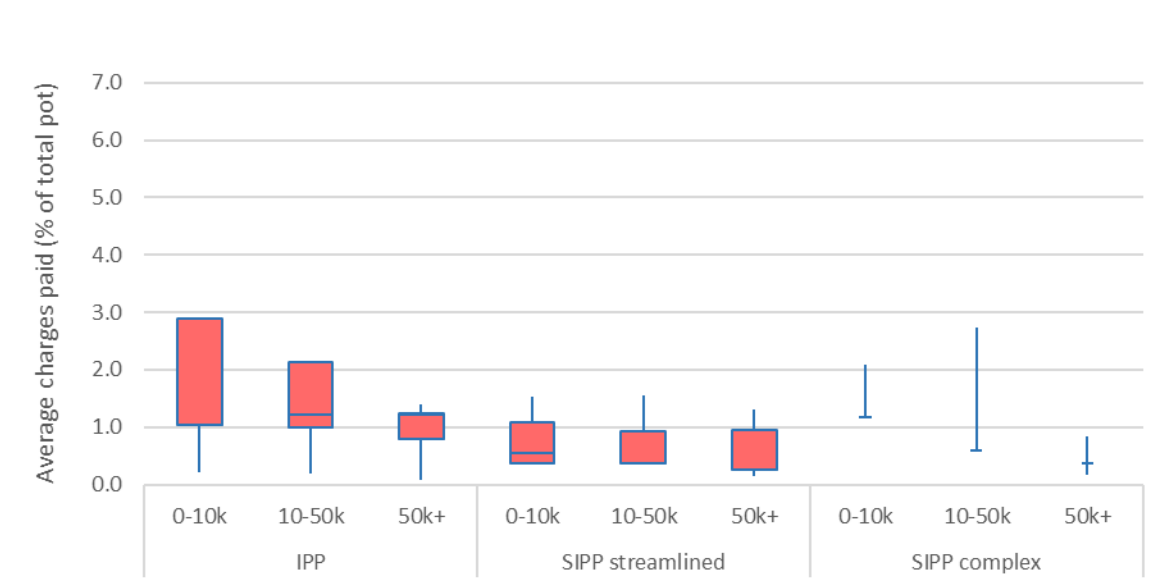


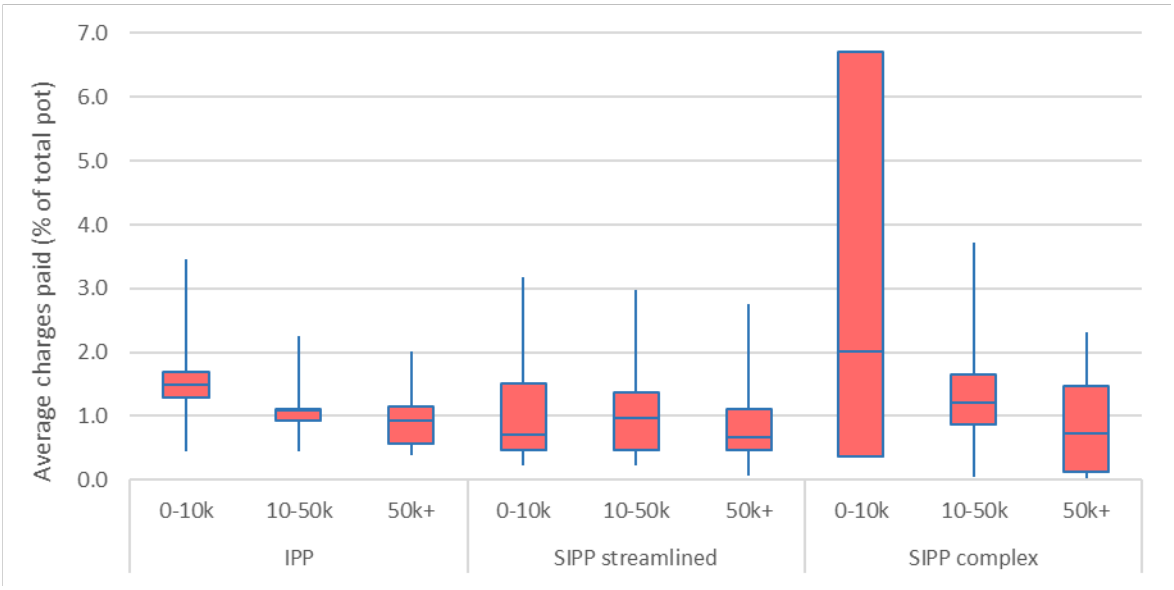


Source: FCA analysis of non-workplace pensions data collected from 106 providers

Figure 3.7: Distribution of total charges by pot size for IPPs and SIPPs

Set 1 (top chart), Set 2 (bottom chart)

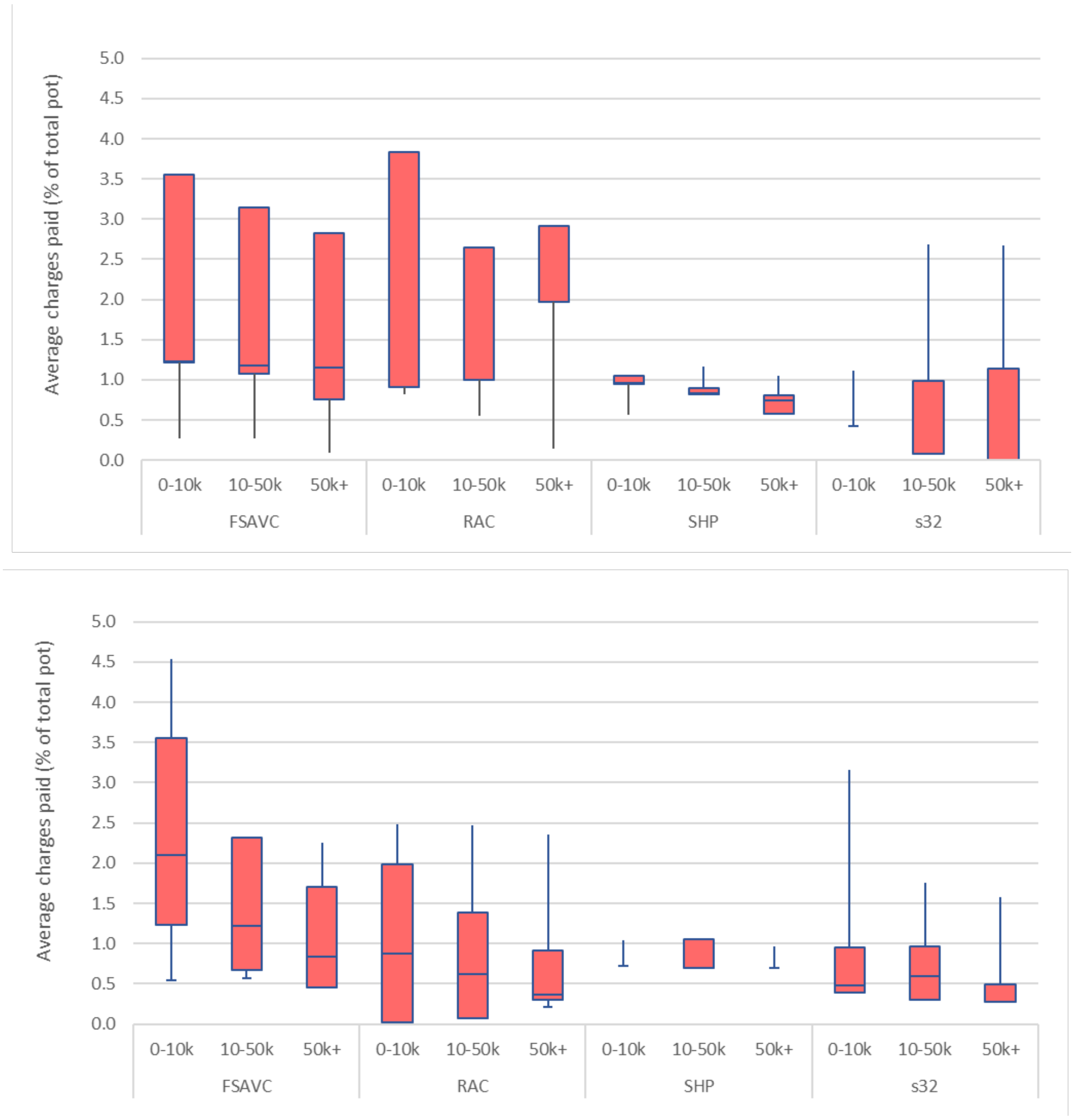




Source: FCA analysis of non-workplace pensions data collected from 106 providers

Figure 3.8: Distribution of total charges by pot size for FSAVCs, RACs, s32 buyouts, and SHPs

Set 1 (top chart), Set 2 (bottom chart)



Source: FCA analysis of non-workplace pensions data collected from 106 providers

3.27 The methodology we adopt to estimate the distribution of charges is the same for estimating average level of charges as described in paragraphs 3.14-3.17 of this annex.

Estimated impact of charge variation on consumers' pensions

3.28 As we set out in FS 19/5, to calculate the final pot corresponding with a charge level, we model a consumer who:

- contributes continuously between 20 and retirement at 65
- has a median income for their age group

- contributes 5% of their pre-tax income

3.29 Individual customers will vary in their contribution patterns. However, we believe the parameters above are indicative of the overall market.

3.30 We model a consumer who starts contribution when they start working at 20. We further model that they keep contributing until they retire at 65. If instead a consumer starts contributing later, their final pot will be smaller. Similarly, if a consumer has breaks from contributing, or stops contributing before retirement, the final pot will be smaller.

3.31 We use HM Revenue and Customs (HMRC) data on median incomes[5]. The market contains both high earners and low earners, and the use of the median reflects this. If instead a consumer had twice the median income, the final pots would be twice as big, and the percentage impact of moving between higher charges to lower charges unchanged.

3.32 As of 6 April 2019, the minimum employee contribution to AE is 5%[6], which we have used in our model. As with income, if a consumer instead contributes 10%, then the final pot would be twice the size, and the percentage impact of moving between higher charges to lower charges unchanged.

3.33 We also model developments in the labour market, and in the real return on the pension pot. We model a consumer who has:

- real income growing by 1% annually
- real fund growth of 3%

3.34 The first is motivated by ONS data on real average weekly earnings (A3WX), which has annualised growth of 0.81% between January 2000 and March 2019. Naturally, this figure has compositional effects (for example, increased labour force participation by low earners would bring average incomes down, but not necessarily effect existing workers).

3.35 We assume the consumer has invested in unit-linked funds, as we do not have access to the implicit charges from with-profits funds.

[5] https://www.gov.uk/government/statistics/distribution-of-median-and-mean-income-and-tax-by-age-range-and-gender-2010-to-2011

[6] https://www.thepensionsregulator.gov.uk/en/employers/increase-of-automatic-enrolment-contributions

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