Financial Conduct Authority

FG14/3 Guidance

Budget 2014 - Pension reforms: guidance for firms in the interim period

April 2014

Contents

1. Overview

What does this guidance cover?

1.1 On 19 March 2014 the Chancellor announced substantial changes to pension legislation in the Budget. Some of these changes came into effect on 27 March 2014, and a further set of changes are in consultation and are proposed to be introduced in April 2015. We have defined the period from the Budget 2014 announcements to April 2015 as the 'interim period' and the pension policy reforms (both from 27 March 2014 and April 2015 changes) detailed here as 'the changes'. The full policy detail, as announced in the Budget, can be found here and the accompanying HM Treasury consultation on the April 2015 changes can be found here.

1.2 In light of these policy announcements, firms will to need to make changes to their operational processes and procedures. They will also need to consider how to treat those customers who are making decisions about their retirement income in this interim period. We are issuing guidance to outline our expectations of firms during this interim period. Specifically, this covers:

- guidance for firms on meeting our Principles and rules in light of the Budget announcements on pensions to help ensure that customers are treated fairly, and
- examples of good practice, which we encourage firms to consider

1.3 This guidance covers the interim period only and therefore will cease to be in force when the new legislation comes into effect in April 2015.

1.4 If further policy announcements or changes are made during the interim period, for instance, in light of HM Treasury's consultation on the April 2015 changes, we may review this guidance to ensure it remains accurate and relevant.

1.5 This guidance does not cover associated tax issues that may arise, for example, if customers change their minds during the cancellation period when purchasing an annuity. Further detail on this can be found here. Firms should contact HM Treasury and HM Revenue and Customs for further guidance on tax matters.

Which firms does this guidance apply to?

1.6 Our guidance is relevant to:

- pension providers (both insurers and SIPP operators)
- annuity providers
- income drawdown providers
- financial advisers providing retirement income advice, and
- intermediaries selling annuities and income drawdown products on a non-advised basis (including comparison websites, brokers and investment platforms)

Why are we not formally consulting on this guidance?

1.7 We are publishing this guidance, without formal consultation, as we consider any delay in issuing final guidance would be prejudicial to the interests of customers who are making decisions about their retirement income in the interim period. Nevertheless, we welcome feedback and comments from the industry and consumer organisations. By publishing guidance in this area we aim to help ensure firms treat their customers fairly and pay due regard to their information needs, consistently in line with our Principles and Rules.

1.8 Under Financial Services and Markets Act 2000, we are not required to publish a cost benefit analysis for our guidance. However, in most circumstances where guidance may change behaviour in the market, we do endeavour to publish an analysis of the costs and benefits of our guidance. In this case, given our view that any delay in issuing final guidance would be prejudicial to consumers; the fact that it will be in force for a short period; that changes have already been made by some firms; and that we are not formally consulting, we have not published a cost benefit analysis.

What do we expect firms to do?

1.9 We are aware that many firms have made, or are in the process of making, changes to their practices and processes in light of the Budget announcements, many of which are reflected as good practice examples in Section 2, and which we welcome. Some firms have asked us for clarification of our expectations in this period, which this guidance provides.

1.10 We expect firms to review and revise their existing practices in light of this guidance.

What other work are we doing on the Budget pension reforms?

1.11 We are working with the Government to develop the impartial ‘guidance guarantee’ which will be offered to individuals at retirement from April 2015 and will consult widely about the detail of the standards governing this in the Summer.

1.12 Through our forward-looking supervisory work we will also be monitoring changes to firms’ business models and new product developments arising from the Budget so we can intervene early if we see any risks to consumers.

1.13 Alongside this, we are continuing our competition market study with but with a revised, more forward-looking scope focused on the issues most important to making the market for retirement income products work well in the future.

This guidance affects consumers who are making decisions about taking their retirement income. We would therefore be grateful for feedback from consumer organisations on the guidance in Section 2.

2. Guidance

2.1 In this section we set out our expectations of firms based on the relevant Principles for Businesses, specifically Principles 6, 7 and 9, together with the applicable COBS rules.

2.2 This guidance is relevant to:

- pension providers (both insurers and SIPP operators)
- annuity providers
- income drawdown providers
- financial advisers providing retirement income advice, and
- intermediaries selling annuities and income drawdown products on a non-advised basis (including comparison websites, brokers and investment platforms)

2.3 It includes circumstances where customers are in the cancellation period for a retirement income product, are on the retirement journey (i.e. have received a wake-up pack from their pension provider), or are coming up to retirement (i.e. more than six months before retirement).

2.4 It does not apply to customers who have purchased an annuity or income drawdown product before Budget 2014 where the cancellation period has expired.

Guidance relating to all relevant customers

2.5 The following points apply for all relevant customers in the interim period:

a) Firms **should** carefully consider the communications they make to customers throughout the retirement journey and provide them with clear and timely information about the changes to enable them to make informed decisions.

b) Pension providers **should** take action to enable customers to access their pension funds as cash if they decide to do so under the new legislation relating to small pots, which applied from 27 March 2014.

c) Pension providers and intermediaries **should** be making changes to their processes to ensure customers are not put at a disadvantage while they are making their retirement income decision. For example, customers may want to consider whether they should wait to access their pension savings after the April 2015 changes.

d) Advisers **must** provide suitable advice to meet the needs and circumstances of individual customers making retirement income choices – this should take into account the 27 March 2014 changes in legislation. Advisers should also consider, and make it clear in the advice they provide, the implications for customers of the known changes proposed for April 2015.

e) Firms **should** inform customers that delaying making a decision may affect the annuity rate they are offered. Firms should take this into account in their actions, i.e. they should consider providing further advice or information as soon as possible.

Guidance relating to customers at different stages of making a decision about their retirement income

2.6 The following table details the specific guidance that firms should consider for customers at different stages of making a decision about their retirement income.

Stage	Meeting Principles 6, 7 and 9 and relevant COBS rules	Examples of good practice
A. Customers who applied for, and/or are in the process of applying for, an annuity shortly before the Budget announcements (where the cancellation period has not finished or has not started)		
Customers who are within their 30 day cancellation period for an annuity and/ or Customers who have applied for an annuity through an adviser shortly before Budget 2014 and/ or Customers who have applied for annuity through a non-advised service shortly before the Budget (i.e. their application is in progress, but not yet complete)	A.1 Advisers **should** consider whether their recommendation is still suitable in light of the changes and re-contact their customers as quickly as possible to explain the changes and advise appropriately if, for any reason, a different course of action is suitable. A.2 Providers and intermediaries (including comparison websites, brokers and investment platforms) **should** proactively contact these customers to provide them with information about the changes and give them a reasonable opportunity to respond. A.3 Providers and intermediaries (including comparison websites, brokers and investment platforms) **should** proactively remind customers about their right to change their mind. A.4 Annuity providers **should** proactively contact customers who have recently applied for an annuity with a fund of £30,000 or less to inform them of the relevant changes to trivial commutation.	A.5 Annuity providers **may wish** to extend the cancellation period to provide further time for customers to consider their options. A.6 Providers and intermediaries **may wish** to tailor their approach to the circumstances of their customer, e.g. only notifying relevant customers of changes to trivial commutation. A.7 Where customers have a guaranteed annuity rate (GAR) or recently obtained a GAR, pension providers **may wish** to reiterate the benefits it offers/offered and that these may be lost if customers change their minds or do not take it up. A.8 Pension providers **may wish** to highlight to their customers their ability to accept returned funds into pension funds when an annuity is cancelled, and make alternative arrangements for receipt of returned funds where appropriate.

Stage	Meeting Principles 6, 7 and 9 and relevant COBS rules	Examples of good practice
B. Customers currently considering their retirement options		
Customers who have already received retirement literature from their pension provider before the Budget (i.e. those customers who are within six months of their retirement).	B.1 Pension providers **should** take the next available opportunity within the existing customer journey (e.g. through the wake-up pack, reminder letter, inbound call scripts) to provide customers with clear information about the changes to allow them to make an informed decision. B.2 Pension and annuity providers **should** ensure that customers have been informed of the changes and implications in writing before they make an application. B.3 Advisers providing services to customers approaching retirement **should** consider and provide clear information on the implications of the changes when giving advice. B.4 Non-advised intermediaries (including comparison websites, brokers and investment platforms) **should** provide clear information on the changes and the implications in promotional material where appropriate (e.g. online and in written communications).	B.5 Providers (or intermediaries) **may wish** to tailor their approach to the circumstances of their customer e.g. only notifying relevant customers of changes to trivial commutation. B.6 Where customers have a guaranteed annuity rate (GAR), pension providers **may wish** to reiterate the benefits it offers and that these may be lost if customers change their mind or do not take it up.
C. Customers approaching retirement		
Customers who are about to retire (i.e. those customers who are more than six months away from retirement).	C.1 Pension providers **should** ensure their customers receive clear communications at retirement that inform them about the changes and implications to allow them to make an informed decision. C.2 Advisers providing services to customers approaching retirement **should** consider and provide clear information	C.4 Providers and intermediaries **may wish** to tailor their approach to the circumstances of their customer, e.g. only notifying relevant customers of changes to trivial commutation.

Stage	Meeting Principles 6, 7 and 9 and relevant COBS rules	Examples of good practice
	on the implications of the changes when giving advice. C.3 Non-advised intermediaries (including comparison websites, brokers and investment platforms) **should** provide clear information on the changes and implications in promotional material where appropriate (e.g. online, and in written communications).	
D. Customers who applied for, and/or are in the process of applying for, income drawdown shortly before the Budget announcements (where the cancellation period has not finished or has not started)		
Customers who are within their 30 day cancellation period for an income drawdown product. and/ or Customers who have applied for an income drawdown product through an adviser shortly before Budget 2014. and/ or Customers who have applied for income drawdown product through a non-advised service shortly before the Budget (i.e. their application is in progress, but not yet complete).	D.1 Advisers **should** consider whether their recommendation is still suitable in light of the changes and re-contact their customers as quickly as possible to explain the changes and advise appropriately if for any reason a different course of action is suitable. D.2 Providers and intermediaries **should** proactively contact these customers to provide them with information about the changes and implications and give them a reasonable opportunity to respond. D.3 Providers and intermediaries **should** proactively remind customers as soon as possible about their right to change their mind.	D.4 Income drawdown providers **may wish** to extend the cancellation period to provide further time for customers to consider their options.
E. Customers using income drawdown to provide for retirement income		
Customers who are currently taking an income from a drawdown product.	E.1 Pension providers, and any firm offering income drawdown, **should** consider the appropriate point to contact their existing customers to provide clear information about the changes	E.3 Advisers **may wish** to proactively contact all customers regardless of the service level offered to inform them about the changes and review the decision agreed with the customer, where possible.

Stage	Meeting Principles 6, 7 and 9 and relevant COBS rules	Examples of good practice
	and do so when they deem it appropriate. E.2 Depending on the level of service the adviser has agreed with their customer, the adviser may be obliged to contact their customer to discuss the new drawdown limits. For example, if the agreement includes providing an annual review that covers reviewing the ongoing suitability of the drawdown arrangement, then the advice at review should clearly take into account the changes.	E.4 Where firms know they have customers who would be interested in the higher level of withdrawals, firms **may wish** to contact these customers to provide advice or information in this area. E.5 Providers **may wish** to make immediate changes to their income drawdown products to enable their customers to take advantage of the new eligibility requirement for flexible drawdown products or the new income limits on their capped drawdown products. We recognise that this is a commercial decision at the discretion of the provider.

3. How to provide comments

3.1 You can send your comments by email to Conduct_LifeinsuranceThemes@fca.org.uk or by post to:

The Life Insurance Themes Team
The Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS