MS16/1.2: Annex 2

# Retirement Outcomes Review

## Interim Report: Annex 2 – Data collection and analysis

July 2017

# Annex 2 – Data collection and analysis

1. In this Annex we set out the data we used in the Retirement Outcomes Review. These include:
   - FCA quarterly retirement income market data (RIMD)
   - distribution channel charges data
   - data from the Association of British Insurers (ABI)

## Quarterly retirement income market data

2. We have used the retirement income market data throughout the interim report, particularly to inform our market overview and the supply-side analysis.

3. This quarterly data collection is part of our commitment to monitor, and assess the impact of, the pension reforms which we made in our Retirement income market study (RIMS).[1]

4. The data collection commenced in July 2015 and 5 quarters of data have been used to inform our analysis. As proposed in CP16/36[2], the data will be collected on a six-monthly basis in future.

5. The data gather information from 56 firm groups which comprise 94 retirement and pension providers. The data cover a large sample of firms that are pension scheme providers and/or retirement income providers for UK DC Personal & Stakeholder Pension Arrangements. This includes any DC occupational pension schemes provided by these firms and therefore includes some trust-based plans in addition to most of the UK's contract-based plans.[3] DB pensions and pension assets managed on behalf of third parties are excluded, e.g. trustee investment plans and pension investment plans.

6. In this section, we set out:
   - which data we have used
   - what challenges we encountered in analysing the data

### Data we have used

7. Table 1 sets out the data we used in our analysis.

***Table 1: Summary of data used***

| Type | Description |
|---|---|
| **Flow data**[4] | • **plan holders actions** split into: annuities, drawdown, UFPLS, full withdrawals. These are then split by pot size and age of the customer. |

[1] https://www.fca.org.uk/publications/market-studies/retirement-income-market-study

[2] https://www.fca.org.uk/publication/consultation/cp16-36.pdf

[3] The sample covers an estimated 95% of defined contribution (DC) contract-based pension scheme assets.

[4] Data that capture the actions of plan holders took during the quarter.

| Type | Description |
| --- | --- |
| | Data on annuities and drawdown are also split by type of customer (i.e. advised/non-advised customers; new/existing customers)<br>• **GARs:** total number of consumers who gave up their guaranteed annuity rates (GAR)<br>• **customers sat in drawdown:** total number of plan holders who took a pension commencement lump sum but have never taken an income<br>• **withdrawal data**: total number of partial drawdown and partial UFPLS plans making withdrawals |
| **Stock data**[5] | • **uncrystallised data**: total number of plan holders in accumulation; total value of assets (AUA) in accumulation<br>• **crystallised data**: total number of plan holders in decumulation; total value of assets (AUA) in decumulation |

### Challenges in analysing the data

8. The main challenges we encountered during the data analysis were:
   - The data refer to the number of pension pots and not the number of customers. Some customers may have multiple pension pots or retirement income products but this is not captured by our data.
   - Some variables are not comparable between certain quarters. For example:
     - In the third quarter of 2015, figures for drawdown and UFPLS were not collected in the same format as for the other quarters.
     - Full withdrawals broken down by age only feature in the second quarter and third quarter of 2016 and not in the previous quarters.

     As a result we could not aggregate all quarters of data in these instances.
   - Some providers have provided incomplete responses. For example, some providers were unable to provide data by distribution channel or pot size.
   - Some providers were unable to determine whether customers used advice when accessing their pot. Instead they provided data on whether the customer used advice when taking out their original pension. We used the data as reported by firms.
   - On very few occasions, we had to estimate data from quarters that firms had not reported to ensure consistency.
   - Firms were asked to record all their new drawdown sales[6] without distinguishing by type of drawdown. Therefore, where firms provide more than one type of drawdown this was not captured by our data.

## Distribution charges data request and analysis

9. In this section we discuss our distribution charges data request and the analysis we carried out using these data.

10. We set out:
    - the data we collected

[5] Data that capture a snapshot of firms' books at the end of the quarter being reported on.

[6] A number of legacy products remain where the only way to access drawdown is to transfer into a new scheme/product. In this report, references to product sales also refer to options available within existing pension schemes, including SIPPs.

- what challenges we encountered in collecting and cleaning the data
- an overview of the data

## Data we collected

11. We used these data to understand how firms were distributing their products and to get an idea of the volume of sales through different channels. We also wanted to gather information on the issues raised with us by stakeholders around commission and other charges levied for using non-advised distribution channels for annuity and drawdown sales. To aid our assessment of the issues, we also requested information on adviser charges for advised sales of these products.

12. This was a one-off data request. In finalising this data request we piloted it with a sample of firms and incorporated the comments received. After issuing the data request, we hosted a workshop at the FCA to provide firms with an overview of the data request and to give them an opportunity to raise any queries.

13. We sent the data request to 56 firm groups.[7] We received 55 responses: 53 complete responses and 2 partial responses.

14. We asked firms for data on products that had been accessed over the first year since pension freedoms took effect (6 April 2015 – 5 April 2016).

15. We asked firms to provide us with data on the following products:
    - **annuities:** level single life annuities with up to 5 year guarantee periods, impaired and enhanced annuities.[8]
    - **drawdown:** personal pensions SIPP[9] and non-SIPP.[10][11]
    - **blended solutions or hybrid solutions**

16. For each product above we asked firms to provide us with number of sales[12] and charges associated with the following channels:
    - **advised channels[13]:**
      - in-house advisers
      - independent financial advisers
    - **non-advised channels:**
      - existing customers
      - 'open market'
      - brokers
      - referral arrangements
      - price comparison websites/others

17. Table 2 sets out the data we requested.

[7] To ensure consistency, the sample is very similar to the sample of the Retirement income market data request.

[8] In the main report we have combined impaired and enhanced annuities.

[9] Self-invested personal pensions ("SIPPs") are a type of money purchase personal pension that have wide investment powers. Customers can commence drawing retirement benefits from the age of 55 and don't have to stop working to draw benefits.

[10] Any type of personal pension that IS NOT a SIPP. Customers can commence drawing retirement benefits from the age of 55 and do not have to stop working to draw benefits.

[11] In the main report we have combined SIPP and non-SIPP drawdown.

[12] A number of legacy products remain where the only way to access drawdown is to transfer into a new scheme/product. In this report, references to product sales also refer to options available within existing pension schemes, including SIPPs.

[13] Customers acquired through these channels could be both existing and new customers.

***Table 2: Summary of data we collected***

| Type | Description |
|---|---|
| **Qualitative information** | • **product options offered** and through which distribution channel<br>• **firm value chain:** the set of activities performed to deliver decumulation products or services; and the associated charges levied, or incurred by the consumer, at each stage |
| **Quantitative information** | • **commission and adviser charges by pot size**: number of sales; average, median, upper 5th and lower 5th percentile charges<br>• **annuity rates**: number of customers and average rates customers received for three specific scenarios and for three pot sizes<br>• **Introducer arrangements and fees**: average fee paid for each introducer arrangement in place |

## Challenges in collecting and cleaning the distribution channel charges data

18. The main challenges we encountered during the data collection and analysis were:

- A few providers did not report the data on a group basis. This may have skewed the data.
- Some providers were not able to retrieve all the data we requested. For example, we asked firms to provide us with median, upper 5th and lower 5th percentiles charges and some firms submitted inaccurate figures. This led to gaps in some firms' data.
- In some cases, responses were submitted without having followed the instructions in the data request which may have led to inconsistencies between firms. We followed up with firms to render the data as consistent as possible with other firms in the sample.
- A number of firms had different difficulties when completing the data request. Some of these difficulties are listed below:
  - a number of firms were not able to split the annuities sales into impaired and enhanced annuity sales
  - a number of firms were not able to separate the adviser charges relating to the particular product sale from the full advice provided so charges may reflect fees paid for additional services
  - for SIPP drawdown, some firms used the amount crystallised as the pot size rather than the full SIPP pot to compute summary statistics on charges
  - a minority of firms reported instances where the adviser charge was unknown, or paid outside of the customer's pot, as £0 instead of "not available"

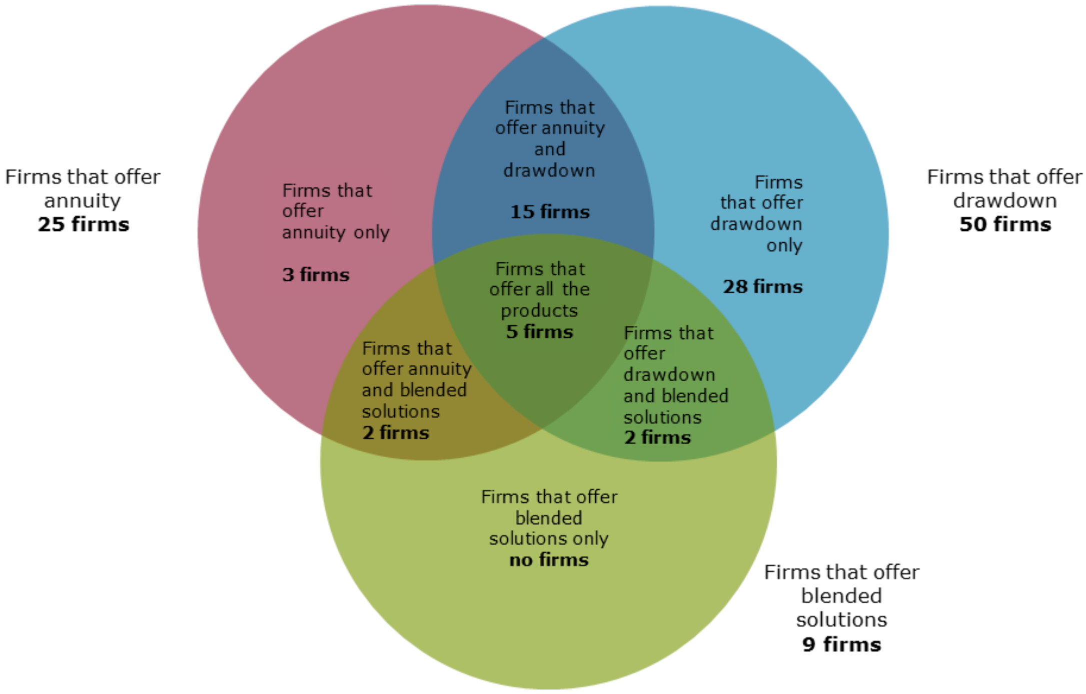
19. We compared these data to our quarterly retirement market data and found some discrepancies in the data. Therefore we think that some firms have under-reported their sales, in particular their non-advised sales.

## An overview of the data

### Overview of providers offering retirement income products

20. We asked firms to report which products they offered through each of the advised and non-advised distribution channels as specified. As shown in Figure 1, the majority of providers offered drawdown only (28 firms), followed by a number of providers offering both drawdown and annuities (15).

***Figure 1: Firms offering annuities, drawdown and blended solutions, April 2015 - April 2016 (55 firms in total)***



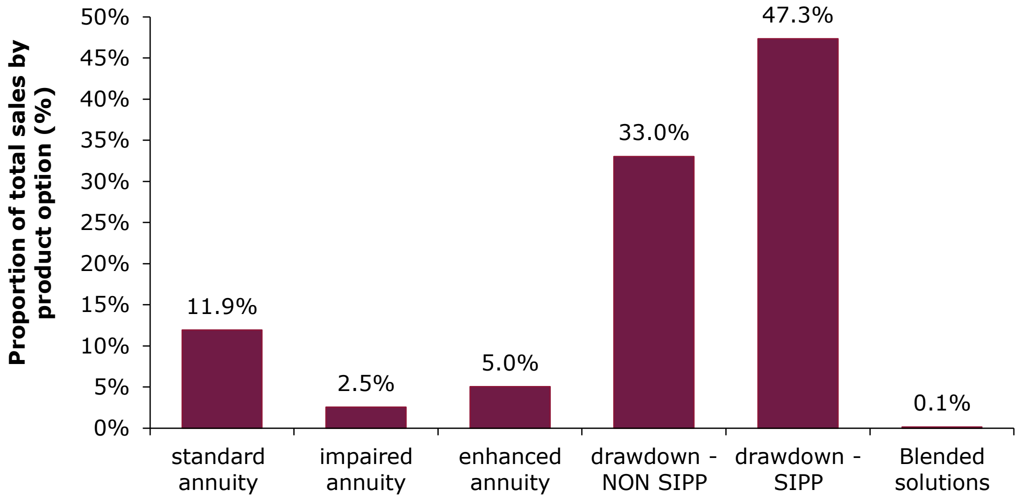

Source: FCA analysis of distribution channel charges data collected from 55 firms. Note: Firms that offer annuities could be annuity providers or brokers.

### Overview of sales data

21. Our data comprised more than 170,000 sales.[14] As Figure 2 shows, the majority of the sales in our sample (80%) are drawdown. Annuities account for 20% of total sales: 12% standard annuities, 5% enhanced annuity and 3% impaired annuities. Blended solutions are a niche product with only 0.1% of the total sales.

[14] The product scope of the data request included certain types of annuities, drawdown and blended solutions. Consequently, our data do not represent the overall retirement income market.

***Figure 2: Proportion of total sales by product option, April 2015 - April 2016***

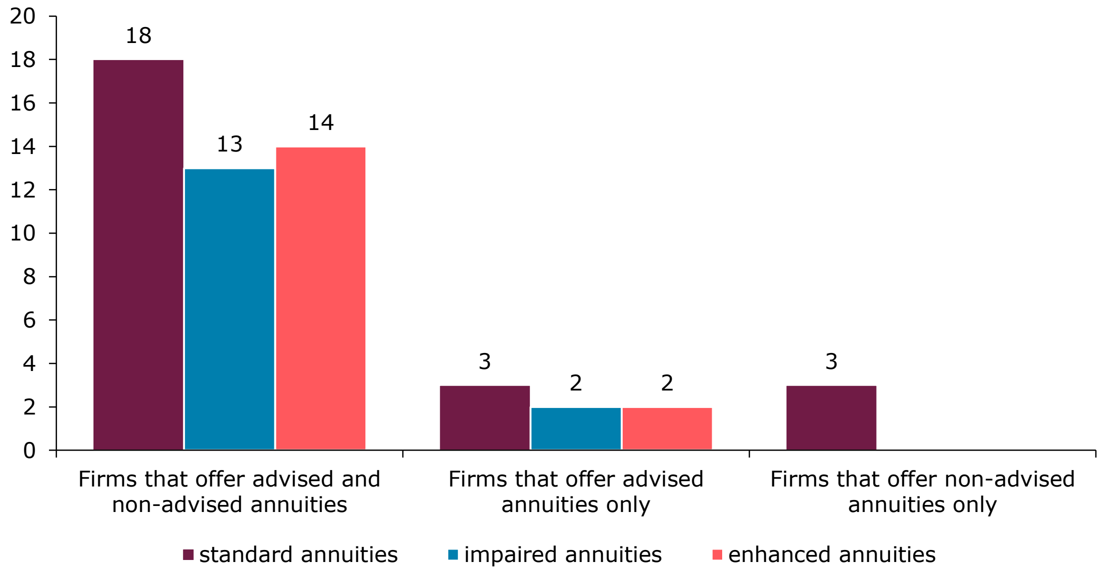



Source: FCA analysis of distribution channel charges data collected from 55 firms. Note: Five firms were not able to distinguish between enhanced and impaired annuities and they reported all the data under the option that best reflected their overall sales. One firm could not distinguish between standard, impaired and enhanced annuities.

### Advised vs. non-advised distribution channels

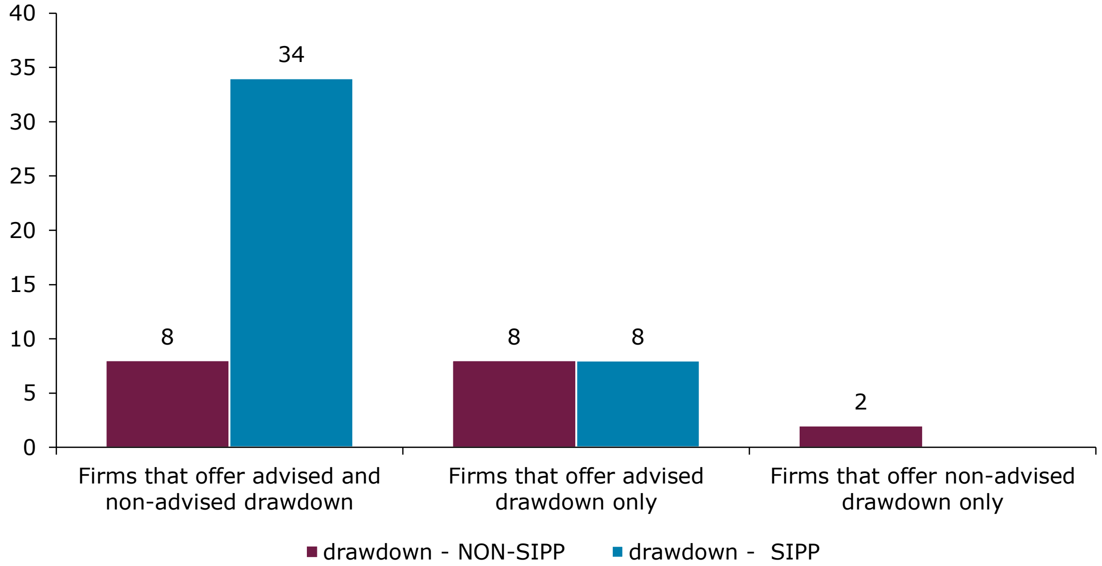
22. As shown in Figure 3, the majority of firms providing annuities do so through both advised and non-advised channels with only three firms offering standard annuities through advised channels only. This is similar to SIPP income drawdown where only 8 out of 42 firms offer drawdown through advised channels only. However non-SIPP income drawdown providers are split almost equally in terms of offering through advised channels only or through both advised and non-advised channels.

***Figure 3: Number of providers that offer annuities through advised, non-advised and both advised and non-advised channels, April 2015 - April 2016***




Source: FCA analysis of distribution channel charges data collected from 55 firms. Note: Firms that offer annuities could be annuity providers or brokers. Firms may offer more than one type of annuity. In this case, we have counted them twice/three times.

***Figure 4: Number of providers that offer drawdown through advised, non-advised and both advised and non-advised channels, April 2015 - April 2016***



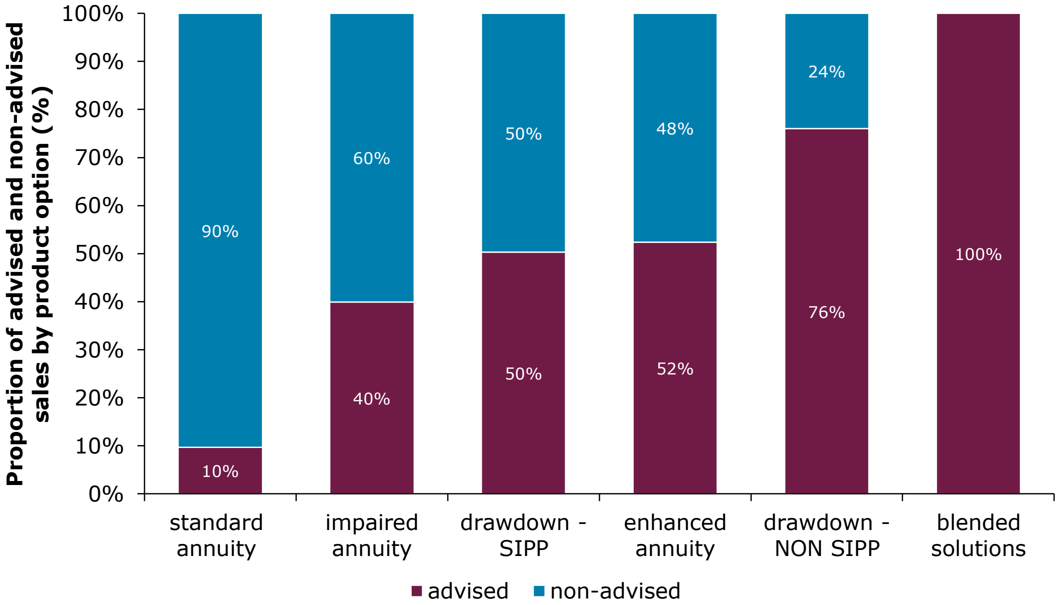

Source: FCA analysis of distribution channel charges data collected from 55 firms. Note: firms may offer more both SIPP and NON-SIPP. In this case, we have counted them twice.

23. Blended solutions are offered through advised channels only. Despite nine firms reporting a blended solutions product on offer, only three providers reported actual sales of these products.

**Advised vs. non-advised sales**

24. Figure 5 shows the proportion of advised and non-advised sales by product option: standard annuities are more likely to be bought through a non-advised channel (10% advised vs. 90% non-advised). Drawdown NON SIPP is more likely to be advised (76% advised vs. 24% non-advised). Of the 256 blended solutions in our sample, all of them were advised.

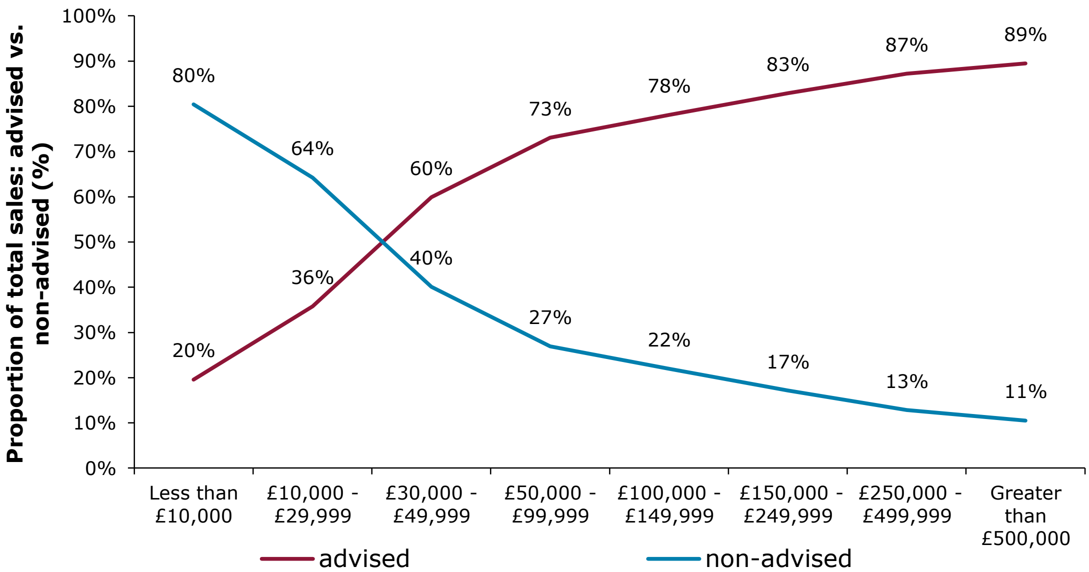
***Figure 5: Proportion of advised and non-advised sales by product option, April 2015 - April 2016***




Source: FCA analysis of distribution channel charges data collected from 55 firms.

25. On aggregate, we found that the proportion of advised sales in our sample increases with pot size (see Figure 6). On the contrary, the proportion of non-advised sales decreases with pot size. At the pot size £30,000 - £49,999 there is a change of tendency with the majority of sales being advised (60%).

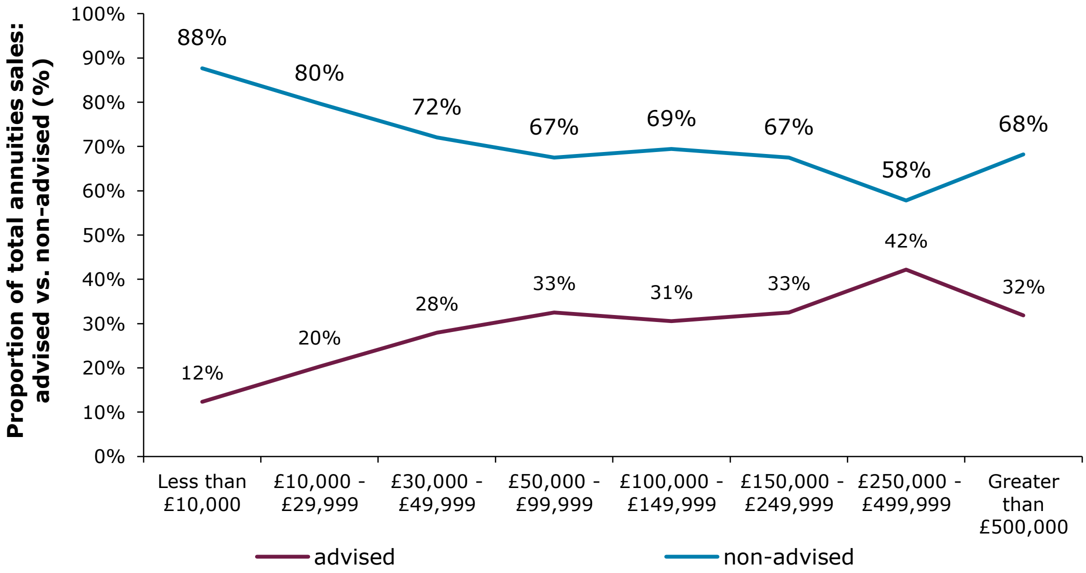
***Figure 6: Proportion of advised and non-advised sales by pot size (all products), April 2015 - April 2016***




Source: FCA analysis of distribution channel charges data collected from 55 firms.

26. When looking at the data for each product individually, the trend is similar for drawdown but it is very different for annuities. As Figure 7 shows, annuities are more likely to be non-advised and this is true for every pot size.

***Figure 7: Proportion of advised and non-advised annuities by pot size, April 2015 - April 2016***

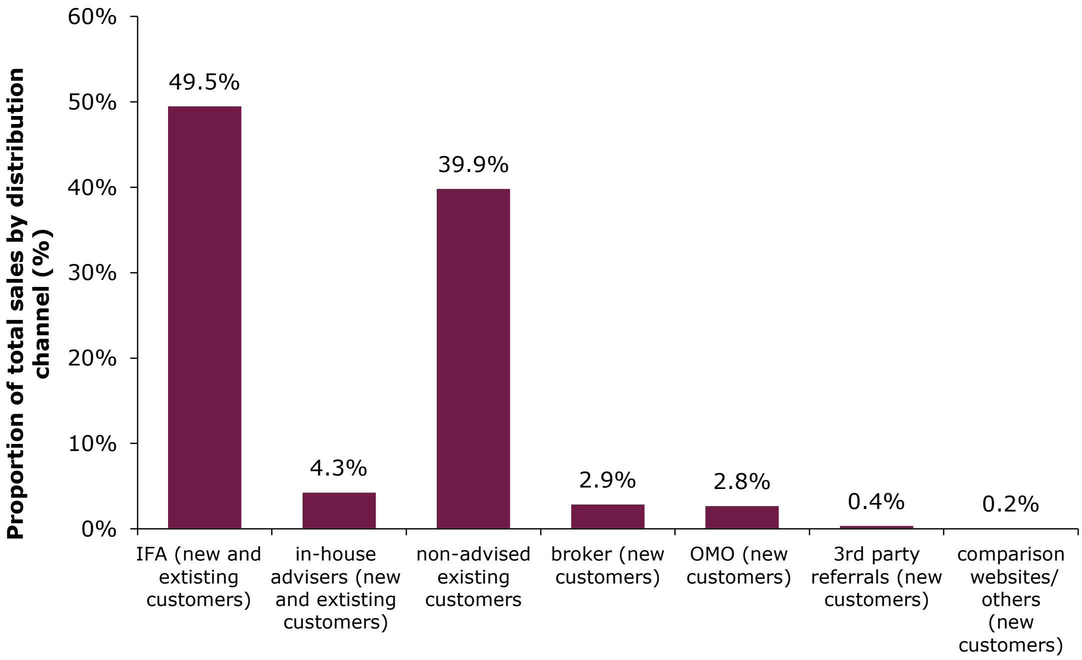



Source: FCA analysis of distribution channel charges data collected from 55 firms.

**Distribution channels sales data**

27. Figure 8 illustrates the distribution of sales by distribution channel: 50% were made through IFA and 40% to non-advised existing customers.

***Figure 8: Proportion of total sales by distribution channel, April 2015 - April 2016***




Source: FCA analysis of distribution channel charges data collected from 55 firms.

**Adviser charges vs. commission charges data**

28. As part of our Retirement Outcomes Review, we wanted to gather information on commission and other charges levied for using non-advised annuity distribution channels for annuity and drawdown sales.

29. We compared commission charges against advised charges at a firm level for each product option.

30. The majority of firms sell drawdown – SIPP to both advised and non-advised customers. However, firms did not record any distribution charges for drawdown product sales through non-advised channels therefore we focussed our analysis on annuities.

31. Annuities are sold through a mix of distribution channels. We focussed our analysis on annuity charges for standard, enhanced and impaired annuities sold through the three most common distribution channels: IFAs, OMO and brokers.

32. First, we compared the IFA average charges to the average charges paid through OMO and brokers for certain pot sizes – e.g. £50,000 – £99,999. We found that for the majority of firms the average commission charges for non-advised sales – ie OMO and broker charges - were not higher than average charges paid across IFA sales.

33. In very few instances we found that providers sell non-advised annuities at a higher average cost compared to advised annuities. However, the number of observations in these instances was too small to draw conclusions about the difference in charge levels. For example, one firm reported around 130 standard annuities sales through IFA and less than 10 through brokers. We also looked at the lower 5th and upper 5th percentiles to understand whether the average charges reported were likely to be skewed by outliers; this was the case in almost all instances. As this does not appear to be a widespread issue in the market, we are not taking any further action at this point.[15]

## Data from the Association of British Insurers

34. We have used the ABI data to inform our supply side analysis. In particular, we have analysed the number of new and existing customers for advised and non-advised sales of annuities and drawdown.

35. The ABI collects data from its 250 company members which cover an estimated 90% of the UK insurance market.[16] The ABI collects these data on a quarterly basis.

36. When compared against the RIMD sample in the third quarter of 2016, 21 firm groups are included in both the ABI and RIMD. As Table 3 below shows, 87% of annuity sales and 75% of drawdown sales reported in RIMD come from ABI members. Therefore, we consider the ABI sample to be sufficiently representative of the market.

[15] See Chapter 5 for more detail.

[16] https://www.abi.org.uk/about

***Table 3: Comparison of RIMD sales by ABI members vs. whole RIMD sample, July - September 2016***

| | new drawdown sales | | | new annuity sales | | |
|---|---|---|---|---|---|---|
| **Sample** | **non-advised** | **advised** | **total** | **non-advised** | **advised** | **total** |
| **ABI members only** | 8,846 | 21,503 | 30,349 | 11,547 | 6,399 | 17,946 |
| **Full RIMD sample** | 12,513 | 28,161 | 40,674 | 13,734 | 6,804 | 20,538 |
| **Coverage of ABI (ratio of ABI members' sales to total RIMD sales)** | 71% | 76% | 75% | 84% | 94% | 87% |

Source: FCA analysis of FCA retirement income market data collected from 56 firms.

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