Retirement Outcomes Review

Interim Report

MS16/1.2

July 2017

How to respond

We are asking for comments on this report by 15/09/2017

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1 Executive summary

Our review looked at how the retirement income market is evolving after the introduction of the pension freedoms in April 2015. We focused primarily on consumers who do not take advice.

Our interim findings

We found that consumers have welcomed the pension freedoms. Over one million defined contribution (DC) pension pots have been accessed since the reforms. In most cases DC pots accessed were small (64% under £30,000) compared with the value of the state pension (worth about £200,000).

This market is still developing. DC pension savings are expected to become an increasingly important source of income for later life for future generations: in particular, by 2030 it is estimated that workplace DC schemes will hold £1.7 trn, five times the £340bn held in 2015.

The pension freedoms have changed the way consumers access their pots:

- **Accessing pots early has become 'the new norm'.** 72% of pots since pension freedoms have been accessed by consumers under 65, most of whom have taken lump sums.
- **Over half (53%) of pots accessed have been fully withdrawn.** 90% of these were smaller than £30,000 (60% were smaller than £10,000) and 94% of consumers making full withdrawals had other sources of retirement income in addition to the state pension. We do not therefore see this as evidence of people 'squandering' their pension savings, though we do have concerns about why people are shifting savings out of pensions (discussed below).
- **Drawdown has become much more popular:** twice as many pots are moving into drawdown than annuities. Before the pension freedoms, over 90% of pots were used to buy annuities.

Providers have developed tools to help consumers understand the changes. They have also introduced simpler flexi-access drawdown products that consumers can buy without taking financial advice.

Emerging issues

This market is still developing and firms and consumers are continuing to adjust to the reforms. However, we identified five emerging issues:

- **Over half (52%) of the fully withdrawn pots were not spent but were transferred into other savings or investments. Some of this is due to mistrust of pensions.** Mistrust is an issue in itself, but can also give rise to direct harm if consumers pay too much tax, or miss out on investment growth or other benefits.

- **Most consumers choose the 'path of least resistance'.** They accept the drawdown option offered by their pension provider without shopping around. Our research shows very low levels of shopping around and data from the Association of British Insurers (ABI) shows that 94% of non-advised drawdown sales were made to existing customers. This suggests limited competitive pressure to offer good deals. We plan to investigate further whether consumers are getting good value when they move into drawdown without taking advice.
- **Many consumers buy drawdown without advice but may need further protection to manage their drawdown effectively.** The proportion of drawdown bought without advice has risen from 5% before the freedoms to 30% now. Drawdown is complex and consumers need to manage longevity and investment risks by choosing appropriate investment and withdrawal strategies. There is a question about whether further support and protection is needed to manage drawdown effectively.
- **Annuity providers are leaving the open annuity market,** reducing choice for consumers shopping around in the open market. In July 2017, only seven providers still offered annuities on the open market. This may weaken the effectiveness of competition over time. We will continue to monitor the market to ensure that it remains open and competitive.
- **Product innovation has been limited to date.** For example we have not seen products emerge for the mass market that combine flexibility with an element of guaranteed income. However stakeholders have not identified significant regulatory barriers to innovation, and we recognise that innovation may pick up as DC pots grow in size and industry is given more time to develop propositions.

Potential remedies we are considering
To support pension freedoms and get this market on a good footing for the future it is important that:

- there are appropriate protections for those least able to engage
- the market drives value and innovation
- consumers can get the right support when they take important and difficult decisions about their pension savings

We have identified some potential remedies to help tackle all three areas, and would like views on both how urgent and appropriate they are:

- additional protections for consumers who buy drawdown without advice
- measures to promote competition for consumers who buy drawdown without taking advice, including proposals to:
  - allow consumers to take some of their savings early without having to put the rest into a drawdown product

- tools and services to help consumers make good choices, primarily by building on existing initiatives such as the free guidance provided by Pension Wise

Getting this right will require cooperation across the Government, regulators, industry and consumer bodies as the measures we are proposing do not fall within the FCA's remit alone and some of these issues sit outside our immediate powers.

In respect of providers withdrawing from the open annuity market and innovation, we do not propose action at this time, though we will keep the market under review.

Background

1.1 Deciding how to use pension savings is one of the most important financial decisions people will make in their lives.

1.2 Before the pension freedoms, consumers faced a number of restrictions on when and how they could access their DC pension pots. Most consumers had to buy an annuity unless they were eligible for drawdown by having guaranteed pension income of over £20,000 per year from other sources. Also, early withdrawals of cash over the 25% tax-free allowance[1] incurred a significant tax penalty. The pension freedoms of April 2015 introduced more flexibility. Consumers can now access their savings from the age of 55 and can choose from a wider range of retirement income products and options available to them.

1.3 In July 2016 we launched the Retirement Outcomes Review to assess how competition is evolving after the pension freedoms, given our operational objectives to promote effective competition in the interests of consumers and protect consumers. We focused on outcomes for consumers who do not take regulated advice. The market for financial advice is covered separately under the Financial Advice Market Review (FAMR) which published its final report and recommendations in March 2016. Those recommendations are currently being implemented and we recently published FAMR Baseline Report setting out how we intend to measure progress of these proposals.[2]

1.4 As part of our Retirement Outcomes Review we looked at:

- how consumers who do not take advice decide when and how to access their DC pension savings, including whether consumers can shop around and choose from the wider range of products and options now available to them
- what business models and products have emerged and the impact on competition
- whether FCA regulation is overly burdensome and creates barriers to entry and expansion, or prevents useful product innovation

1.5 This review is part of a wider package of FCA activities covering the pensions and retirement income and related sectors. The main initiatives currently in progress are

1 Unless the consumer has exceeded the lifetime pensions allowance.
2 Financial Advice Market Review, Baseline report, 2017: www.fca.org.uk/publication/research/famr-baseline-report.pdf.

shown in Figure 1 below. As set out in our Business Plan, later this year we will also publish a strategy for the Pensions sector, detailing our regulatory approach.[3]

Figure 1: Main ongoing and future policy and other initiatives in the pensions and retirement income sector

<table>
<tr><th></th><th>Accumulation</th><th>Decumulation</th></tr>
<tr><td rowspan="3">FCA</td><td>Initial discovery work to find out if the non-workplace pensions market is sufficiently competitive
Standardising the disclosure of transaction costs incurred by pension investments</td><td>Retirement Outcomes Review
Continuing work on Retirement Income Market Study remedies</td></tr>
<tr><td colspan="2">Asset Management Market Study – remedy stage</td></tr>
<tr><td colspan="2">Investment Platforms Market Study</td></tr>
<tr><td>HMT</td><td colspan="2">Financial Advice Market Review work streams</td></tr>
<tr><td rowspan="2">DWP</td><td>Review of automatic enrolment
New regulations for master trusts
Review of the security and sustainability of DB pension schemes</td><td></td></tr>
<tr><td colspan="2">Launch of the Single Financial Guidance Body</td></tr>
<tr><td>tPR</td><td>Successfully complete the remaining stages of roll-out of automatic enrolment
Protect consumers through the effective regulation of master trusts
Drive up standards of record-keeping and data maintenance, including public service schemes
Drive up standards of trusteeship across all schemes, with a particular focus on chairs and professional trustees</td><td></td></tr>
<tr><td>Industry</td><td>Launch of Pensions Dashboard</td><td></td></tr>
</table>

3 Business Plan 2017/18, April 2017: www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf.

Our interim findings

1.6 Consumers have welcomed the pension freedoms and the ability to access their savings in ways that were previously not possible. Around a million DC pension pots have been accessed since freedoms were introduced.

1.7 The pension freedoms have changed the way consumers access their pots:

- Consumers are accessing their pension pots early with 72% of pots accessed before the age of 65. Most are choosing to take lump sums rather than regular income.
- Many consumers are fully withdrawing their DC pension pots. Over half (53%) of accessed pots have been fully withdrawn. The fully withdrawn pots are mostly small with 90% of pots below £30,000 and 60% below £10,000. Our consumer research found that 94% of consumers making full withdrawal also had other sources of retirement income beyond the state pension.[4]
- Drawdown has become much more popular than annuities as twice as many pots are moving into drawdown than annuities (compared with 90% of pots moving into annuities and only 5% into drawdown before the pension freedoms).[5]

1.8 Providers have responded by changing their product ranges and developing tools to enable consumers to use the pension freedoms. For example, providers have introduced simpler flexi-access drawdown that consumers can buy without taking financial advice.

1.9 It is early days because the market is still developing as firms adapt to the pension freedoms. Also, DC pots are relatively small for most current retirees: 64% of the pots accessed to date have been smaller than £30,000 (compared with the value of the state pension, currently estimated at £200,000).[6]

1.10 However, with the decline in DB schemes and the introduction of automatic enrolment, many consumers will become increasingly reliant on DC pots as a source of retirement income alongside their state pension over the medium and long term. DB schemes have been declining and members of DC workplace schemes surpassed DB membership in 2014[7]. By 2030, £1.7trn is expected to be held in DC workplace schemes, a five-fold increase from the £340bn in 2015.[8,9]

4 Our research was with consumers who had withdrawn a pension pot worth at least £10,000 without taking regulated financial advice.

5 https://www.moneymarketing.co.uk/issues/26-january-2017/annuities-down-but-not-out/

6 From Me to you? How the UK State Pension System Redistributes, 2014: https://www.ifs.org.uk/uploads/publications/wps/WP201420.pdf

7 FCA analysis of ONS data: annual Survey of Hours and Earnings pension tables UK, 2015 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2016provisionaland2015revisedresults

8 Assessing value for money in defined contribution default funds, 2014 http://pensions-institute.org/reports/ValueForMoney.pdf

9 Asset Management in the UK 2015-2016: The Investment Association Annual Survey, 2016: http://www.theinvestmentassociation.org/assets/files/research/2016/20160929-amsfullreport.pdf

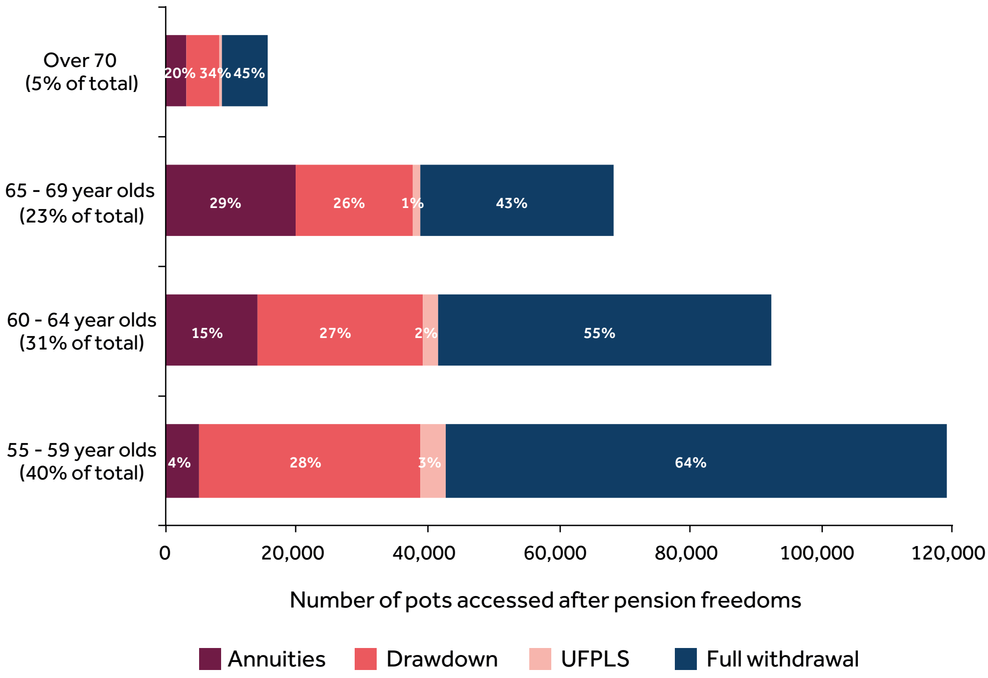
1.11 We have looked at other countries' markets where there are similar issues. In particular, the retirement income market in Australia has some similarities with the market in the UK with annuities being unpopular and most consumers converting pension savings into products that are similar to income drawdown. Given that the average pot size in Australia is larger, it can give us an insight into the issues that may arise in the UK as DC pots grow over time. The Australian market has had similar reforms to the pension freedoms in place for many years now and has been addressing concerns around consumers both under spending and over spending their retirement income over that time.

1.12 We identified five emerging issues, set out below.

Many consumers have fully withdrawn pension pots to move savings elsewhere, partly driven by lack of trust in pensions, when they might be better served keeping pots invested for longer

1.13 Over half of pots accessed after the pension freedoms have been fully withdrawn, although pot sizes were relatively small. This trend is higher among consumers under 65 (Figure 2).

Figure 2: Around half of accessed DC pots have been fully withdrawn, April - September 2016

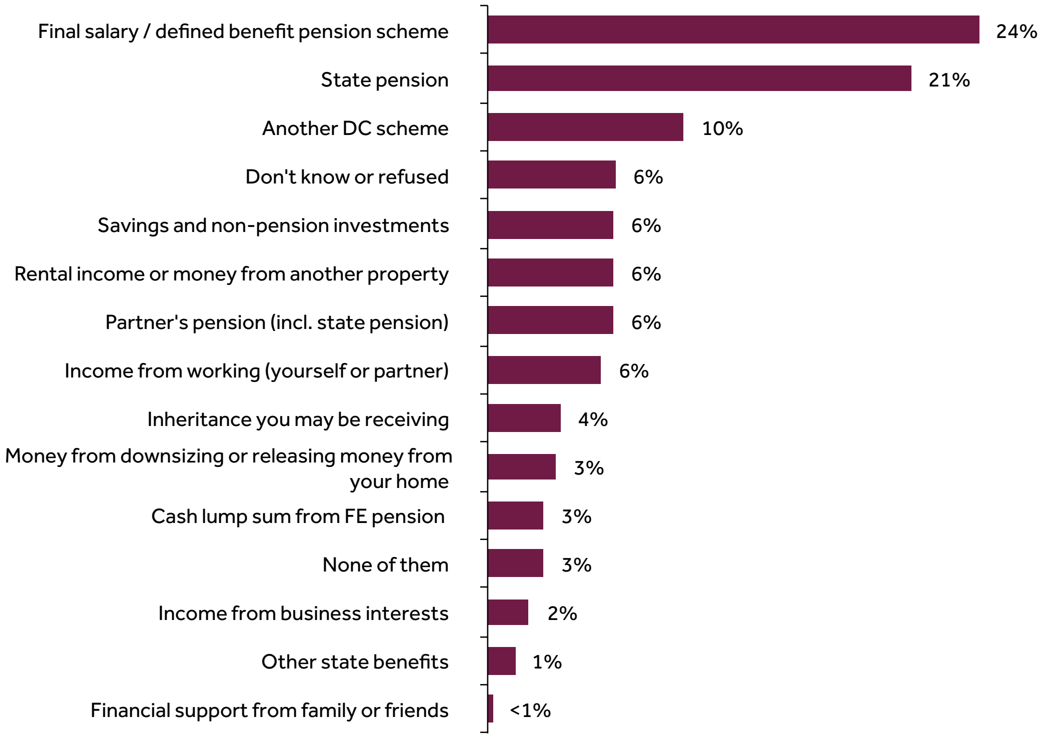


Source: FCA analysis of retirement income market data collected from 56 providers.

Note: This figure does not include October 2015 – March 2016 as during this period our data did not segment full withdrawals by consumers' age. The chart does not include data on choices made by consumers under the age of 55 as they only represent 1% of total pots accessed.

1.14 Our consumer research found that consumers who withdrew their DC savings had other sources of retirement income. Consumers were most likely to state that a DB pension would be their most significant source of income in retirement (24%), followed by the state pension (21%) and other DC schemes (10%; Figure 3). On average, consumers had two DC pension pots and one DB pension. However, 6% of consumers had no other sources of retirement income beyond the state pension. Only 3% of consumers identified their withdrawn pension pot as their most significant source of retirement income.

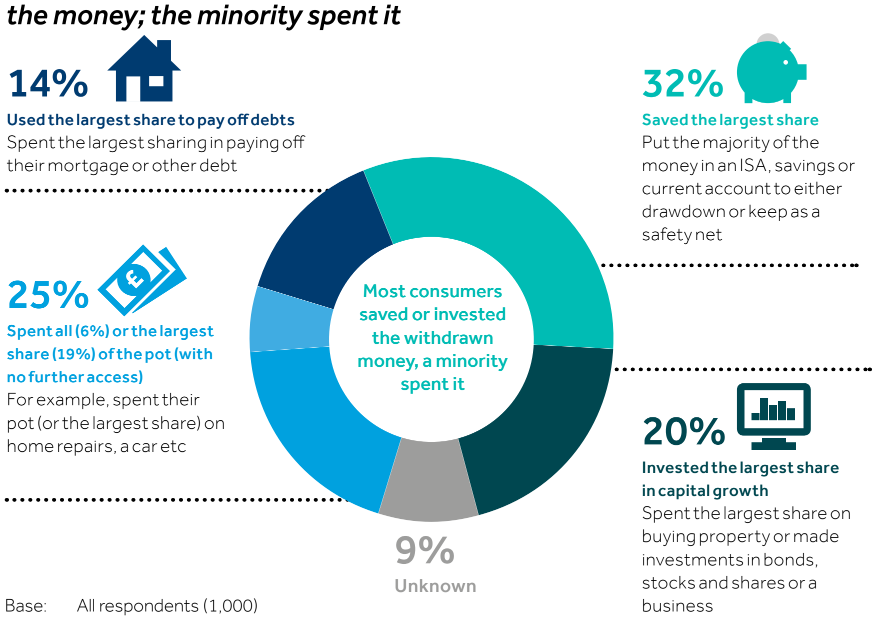
Figure 3: Most significant source of income in retirement



Source: Consumer research commissioned by the FCA, see Annex 4.

1.15 Our consumer research also found that only a quarter of fully withdrawn pots were spent (Figure 4).[10] Over half (52%) of withdrawn pots were transferred into other savings or investments, or spent on property. Contrary to the concerns expressed before the pension freedoms, we did not find that most consumers spent this money on consumer goods and services such as cars and holidays.

Figure 4: Most consumers who fully withdrew their pots saved or invested the money; the minority spent it



Base: All respondents (1,000)

Source: Consumer research commissioned by the FCA, Annex 4.

10 Our research was with consumers who had withdrawn a pension pot worth at least £10,000 without taking regulated financial advice.

1.16 Our consumer research found that full withdrawals were partly driven by a general mistrust in pensions that was typically based on perception of the sector rather than personal experience. In particular consumers referred to pension scandals, a perception that their pension money is 'doing nothing sitting there', and also belief that pension rules were constantly changing to their detriment.

> *"You just don't know what the Government will do, because they can change the rules at any time."*
>
> **Male (55-59), £75k-£250k pot, full withdrawal**
>
> *"I knew I didn't want to leave it in the pension pot, because my view is that there won't be anything left by the time I pull it out… I've never believed in pensions."*
>
> **Female (60-79), £10k-£30k pot, full withdrawal**
>
> Source: Consumer research commissioned by the FCA, Annex 3

1.17 We are concerned that consumers motivated by mistrust in pensions may be making uninformed decisions that result in paying more tax than they would have paid otherwise (for example, by withdrawing the money over a longer period of time), or missing out on the benefits of staying invested for longer. We are also concerned that consumers do not always take advantage of the help and guidance on offer. For example, only 10% had used the information sent by their pension provider.

1.18 In summary, since the reforms many consumers have opted to withdraw their DC pension pot in full. However these have predominantly been smaller pots and not the main source of retirement income. Most consumers have saved or invested the money elsewhere. We do not, therefore, see this as evidence of consumers 'squandering' their pension savings, which was a concern raised when the pension reforms were introduced. However in many cases withdrawal is motivated in part by a lack of trust in pensions, and people often take this decision without turning to their provider or Pension Wise for help. Mistrust is a concern in itself, but can also give rise to direct consumer harm if consumers pay too much tax, miss out on investment growth, or miss out on employer contributions.

Consumers who access their pots early without taking advice typically follow the 'path of least resistance' and buy drawdown from their pension provider without shopping around which may result in them achieving poorer deals

1.19 Our consumer research with consumers who did not take financial advice indicated that withdrawing the tax-free proportion of the pot early has become the new norm, with many perceiving this money as 'windfall'. 72% of consumers who partially accessed their pots through drawdown or UFPLS were aged 55-65. Several factors motivated consumers to access their savings early, including a perception that 'everyone is doing it' and general climate of mistrust.

"I've got some savings. I've got some rainy day money – but this was like free money."

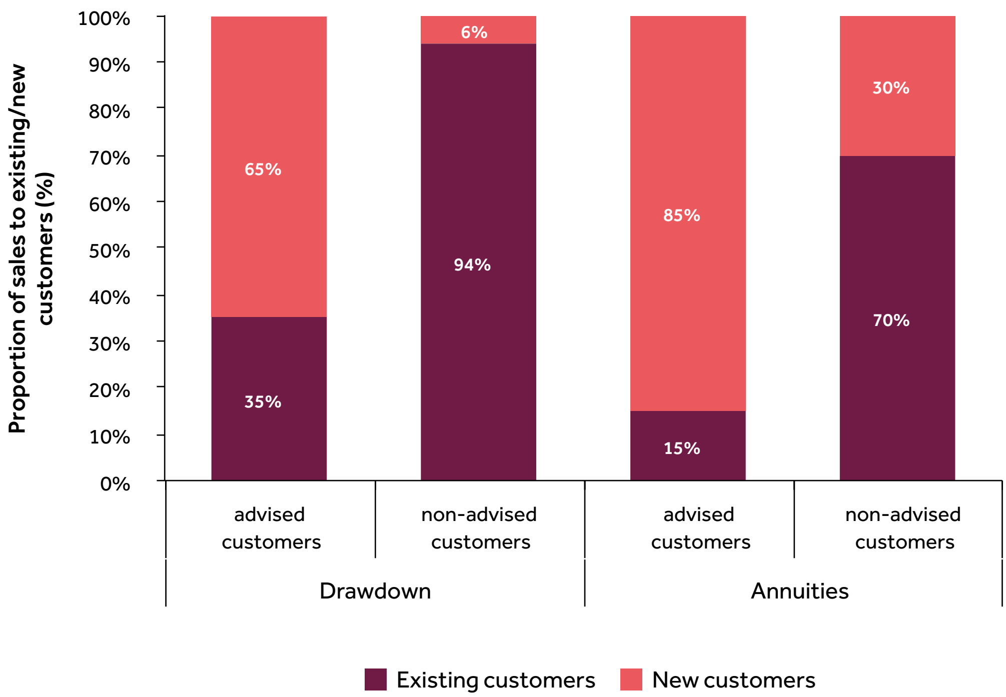
Male (55-59), £30k-£75k pot, partial withdrawal

Source: Consumer research commissioned by the FCA, see Annex 3.

1.20 However, hardly any consumers considered what to do with the remainder of the pot, with most consumers taking the 'path of least resistance' and purchasing drawdown from their current pension provider. Most did not consider that they had made a choice about a retirement income product at that stage. Consumers did not shop around, with many not even aware what product they had, what the charges were or what they were invested in.

1.21 More broadly, according to ABI data, 94% of non-advised drawdown sales have been to their members' existing customers as opposed to only 6% of sales to new customers (Figure 5). By comparison, consumers who take advice are much more likely to move to a new provider as 65% of sales were to new customers compared with 35% to existing customers.

Figure 5: Proportion of ABI members' sales to new and existing customers, April 2015 - March 2017



Source: FCA analysis of ABI data, April 2015 – March 2017.

Note: The sample of ABI members does not include all providers in the retirement income market but is representative of most drawdown and annuity sales. See Annex 2 for more details.

1.22 We also assessed the complexity of shopping around for drawdown. We found that charges can be complex, opaque and not easily comparable across providers. We also found that there are no market wide comparison tools available. This makes it very difficult for consumers to find and understand the information they need to shop around for drawdown.

1.23 Lack of engagement and shopping around among consumers who do not choose to take financial advice means that there is likely to be limited competitive pressure on providers. This could result in higher charges, lower quality products and less innovation over time. Before publishing our final findings we will do more work to investigate whether this type of harm is materialising in the market.

Many consumers buy drawdown without advice but may need further support and protection to manage their drawdown effectively

1.24 Decisions about how to draw down a pension and make the most of a drawdown product are very complex: consumers have to manage their own investment strategy and withdrawal strategy, with those who want their pot to last through retirement also managing the longevity risk. Poor choices can mean consumers missing out on investment growth, being exposed to investments that are too risky for them or running out of their pension savings sooner than expected.

1.25 In accumulation, particularly with workplace automatic enrolment schemes, there are protections in place to support consumers who do not or cannot engage with pension decisions. More specifically, consumers do not have to make decisions about the appropriate investment strategy if they do not want to because they are offered 'default' funds with capped charges. For example, 99% of NEST members are in the default fund.[11] In contrast, in decumulation, consumers who do not take financial advice are expected to make their own investment choices.

1.26 Providers have taken some steps to guide consumers who do not take advice through their decisions or to reduce the potential of consumers making particularly poor choices. For example, some providers ask consumers to indicate what they intend to do with their pot over the longer term and suggest an asset allocation to meet those needs. Other providers have reduced the range of funds from which consumers can choose. However, we are concerned that consumers who do not take advice may not be receiving as much support as they need.

1.27 We would also be concerned if providers steered consumers to options that would not be in their interest, as our previous work has shown the power of 'framing effects'.[12] How firms present choices to consumers can have a very significant impact on the decisions consumers make, particularly where consumers do not receive financial advice.

11 NEST pension scheme annual report and accounts, 2016: https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Corp-SARA_2015_2016,PDF.pdf

12 Our research into framing effects found that the choices savers make are highly sensitive to how their options are presented, which means that consumers may make different decisions, even when the underlying choice remains the same, depending on the way the information is provided. Retirement income market study: Final report – confirmed findings and remedies, 2015: www.fca.org.uk/publication/market-studies/ms14-03-3.pdf

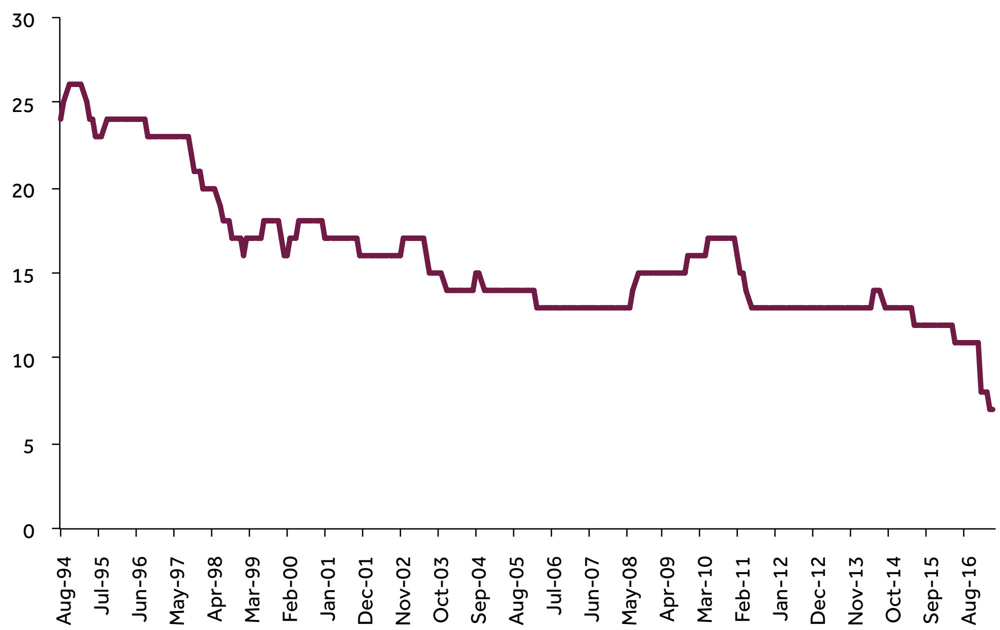
1.28 Some of the firms we met expressed concerns about complexity of drawdown and suggested that it should not be sold without advice. These providers, including some of the large insurers, have restricted distribution or are trying to encourage consumers to seek advice.

1.29 Before the final report, we will collect further evidence on consumer choices and firms' approaches to supporting consumer decision making. In particular, we will assess whether consumers pay high charges or choose unsuitable investment strategies.

Providers are continuing to withdraw from the open annuity market

1.30 Several providers, mainly the large insurers, have withdrawn from the open annuity market. This started before the pension freedoms but some commentators have suggested the freedoms reinforced this trend (Figure 6.). In July 2017, seven firms still offered annuities on the open market. Many of the providers that have withdrawn from the open market are still offering annuities to their existing customers. After the pension freedoms, 30% of annuity sales have been by providers not in the open market.

Figure 6: Number of open market annuity providers at an all-time low, August 1994 - April 2017



Source: Moneyfacts UK Personal Pension Trends Treasury Report.

1.31 Providers tell us they are leaving because of a combination of factors including the lower demand for annuities, the impact of Solvency II and the low interest rate environment. The risk is that this consolidation in the market weakens competition over time. Some consolidation was to be expected due to lower demand. We will continue to monitor this market but do not propose further intervention at the moment.

Innovation for mass market consumers has been limited to date

1.32 There has been some progress, such as tools to aid consumer decision making, simpler drawdown for the mass market and a few 'hybrid' products (mainly aimed at advised consumers). However, we have not seen development of new products combining flexibility and guarantees for the mass market consumers who do not take advice.

1.33 We also have not seen much technological innovation, such as 'robo advice'. Currently automated advice is more popular in wealth management. However, it is expected that due to the lower cost and convenience it could become more popular in larger markets, including retirement income.[13]

1.34 Stakeholders did not identify specific regulatory barriers to innovation that we should be addressing at this time. We found that the main barriers to innovation are the pace of policy change, uncertainty about how the market may develop in the future, consumer inertia and the fact that most DC pots are currently relatively small.

1.35 We think that the incentives for innovating will increase over time as consumer DC pots grow in size. We heard that some providers are already developing new product propositions. Again, we want to give the market further time to develop before we take any action.

1.36 Our findings on the level of innovation are consistent with those set out by the DWP as part of its recent decision not to allow NEST to enter the retirement income market at this time.[14] We agree with the DWP that this decision should be kept under active review. If the market fails to deliver innovative products for mass market consumers, there may be scope for NEST to fill an important gap.

Way forward

1.37 We recognise that it is still early days for the market. This report is about staying close to the market and looking for potential issues before they crystallise. As DC pots grow in size and increasingly become the main sources of retirement income for consumers, we expect to see further evolution in both the products that firms offer and the choices that consumers make.

1.38 However, we have identified some areas where early intervention may be needed to put the market on the best footing for the future. The types of harm and potential harm we are seeking to address include: important consumer needs not being met, prices too high or quality too low, consumers buying unsuitable products and/or misselling, and low confidence and participation. We consider it important that:

- appropriate protection exists to safeguard those least able to engage with complex financial decisions

13 The next frontier: The future of automated financial advice in the UK, 2017: https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/financial-services/deloitte-uk-updated-robo-advice-new-horizons-layout-mww8.pdf

14 NEST: Evolving for the future. Government Response, 2017: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596995/government-response-nest-evolving-for-the-future.pdf

- the market drives value and innovation in response to evolving customer needs
- consumers have access to the right support when making decisions about their pension savings

1.39 We have identified a range of possible measures to make progress on all three fronts. These are summarised below and set out in more detail in Chapter 8. We welcome views on these or alternative ways to address the issues we have identified. We are also seeking views on the urgency of acting, and on the right balance between legislation, regulation and industry-led solutions to achieve these objectives.

1.40 These remedies would be in addition to the ongoing work on developing the annuity information prompt and other FCA work in the pensions and retirement income and related sectors.

1.41 We want to be clear about where we can serve the public interest as a regulator and where the issue falls outside our remit into other areas of public policy.[15] For this market, the issues and the potential measures to address them do not just fall within our remit. Ensuring this market works well will require cooperation across the Government, regulators, the industry and consumer bodies. In particular, all of these have a role to play in re-building trust in pensions, including working with Government and other regulators to support the embedding of previous interventions so that trust can be built within the new regulatory framework.

1.42 Between now and our final report we will work closely with stakeholders to make sure we are all clear on the actions we are best placed to lead.

Remedy 1: Additional consumer protections for consumers who buy drawdown without advice

1.43 Decisions about drawdown are complex because consumers have to manage their own investment strategy, withdrawal strategy and longevity risk. At this time, we are particularly concerned that consumers end up with an investment strategy that may not be suitable given the consumers' risk tolerance and what they intend to do with their pots in the future. As a result, consumers may take on excessive levels of investment risk or, on the contrary, miss out on investment growth where they have invested in overly cautious assets.

1.44 Before the final report, we will gather further evidence on consumer outcomes to assess whether further protections should be put in place for consumers buying drawdown without advice. We will gather evidence on whether consumers pay high charges and have chosen unsuitable investment strategies.

1.45 If we consider harm, or potential for harm, to be significant, potential remedies could include:

- Default investment pathways for consumers who do not or cannot engage with their investment decisions. Once a consumer decides to purchase a drawdown product, or they are moved into drawdown to access their tax-free cash, providers could be required to offer them default investment pathways based on retirement outcomes chosen by the consumer.

15 Our Mission 2017: How we regulate financial services, 2017: https://www.fca.org.uk/publication/corporate/our-mission-2017.pdf

- One aspect we could consider is a charge cap for the default investment pathways to help ensure that consumers do not incur excessive charges.
- Extending the role of Independent Governance Committees to assess the value for money provided by decumulation products, as well as in relation to workplace accumulation products.

1.46 We set out how this potential remedy could work in practice in Chapter 8. We are interested in stakeholder views on the case for additional protections, the urgency with which they might be needed and the different options. An important consideration is whether and the extent to which defaults should be mandated by either the Government or the FCA as opposed to voluntarily developed by firms. When developing our proposals, we will seek to learn lessons from other countries that have experienced similar issues, such as Australia.

Remedy 2: Remedies to enable consumers to access their savings early without having to move into a new drawdown product

1.47 Many pension schemes require consumers to transfer out of their accumulation product and move into a new drawdown product if they want to access some of their pension savings early.

1.48 We want to explore with the Government, tPR and industry whether it is feasible to enable consumers to access some of their savings early without having to move into drawdown with the remainder of their pot at the time. This would ensure that consumers only have to make decisions about retirement income products when they are ready to do so. These changes could also reduce the incumbency advantages of the large accumulation providers, and ensure that consumers accessing pots they are actively contributing to do not miss out on their employers' contributions by leaving the scheme.

Remedy 3: Remedies to make it easier to compare and shop around for drawdown

1.49 We want to make it easier to compare and shop around for drawdown for those consumers who do not take advice. We want to either facilitate or mandate the use of a single cost summary metric showing the total cost of drawdown. We tested a range of metrics as part of this review, and found that personalised cost metrics in cash terms were best understood by consumers. We also want to either encourage or mandate the introduction of drawdown comparison tools.

1.50 We consider that these measures are needed to make shopping around easier, but, on their own, they will not be enough to encourage consumers to shop around. The other issues also need to be addressed, such as lack of awareness of options and mistrust in pensions overall.

Remedy 4: Helping consumers understand their options after pension freedoms

1.51 We want to help consumers to understand their options and engage with decisions, in part to help re-build trust in pensions. We do not propose to introduce more information. Instead, we are seeking stakeholder views on how to make existing information more impactful and effective.

1.52 At this stage, we have considered the following options:

- review the effectiveness of communications sent to consumers before and when they access their pension pots
- review the effectiveness of measures that are currently being used to encourage consumers to make use of the free guidance available from Pension Wise, the Pensions Advisory Service and their successor body
- increase consumer awareness of enhanced annuities (following the findings of our thematic review of annuities)[16]
- introduce further tools to aid consumer decision making, such as tools to help consumers compare different types of products (e.g. annuities and drawdown)
- continue to encourage innovation through ongoing initiatives such as the Advice Unit and FAMR that are helping to bring innovative and affordable advice tools/models for the mass market
- support development of the Pensions Dashboard which has potential to help re-build trust in pensions by making it clearer to customers where and how much their pension savings are

Next steps

1.53 As we develop the package of remedies, we will continue to consider whether interventions are needed at this stage, the likely effectiveness of these remedies and how we can design our remedies to mitigate the risks identified. We will do further work to assess harm that may come from consumers buying drawdown without advice.

1.54 We are publishing this interim report to give all interested parties an opportunity to comment on our emerging thinking and analysis. We invite comments particularly on:

- our interim findings on how competition works
- the potential remedies, and, specifically, the questions set out in Chapter 8

1.55 Please send your views to RetirementOutcomes@fca.org.uk by 15 September 2017.

16 TR14/2 – Thematic review of annuities, 2014: www.fca.org.uk/publications/thematic-reviews/tr14-2-%E2%80%93-thematic-review-annuities

2 Introduction

Chapter summary

In July 2016, we launched our review into the retirement income market by publishing our Terms of reference. This followed from our Retirement income market study (March 2015), which identified several issues that may arise following the introduction of the pension freedoms in April 2015.

Now these pension freedoms have been in place for more than two years, we wanted to assess how consumers and firms have responded to those reforms, and the impact on competition.

We looked at four main areas:

- shopping around and switching
- non-advised consumer journeys
- firm business models
- barriers to entry and expansion

We focused on consumers who do not take regulated advice because of the ongoing work on the Financial Advice Market Review (FAMR).

We have analysed firm data, responses to our Terms of reference, commissioned several pieces of consumer research and met with a range of stakeholders in a series of roundtables and bilateral meetings.

We are publishing this interim report to give all interested stakeholders an opportunity to understand and comment on our analysis.

2.1 In this chapter we introduce our review. We explain why we decided to do it, its scope and the evidence we have gathered to support our analysis. We also explain the purpose of the interim report.

Why did we decide to look into the retirement income market?

2.2 Following introduction of the pension freedoms in April 2015, consumers have much more choice in how they can use and access savings in their DC pension pots. We decided to carry out this review because in our Retirement income market study - published just before the pension freedoms came into play – we identified several issues that may arise.

2.3 We launched this review in July 2016, with the publication of the Terms of reference. The feedback we received is summarised in Annex 1.

Scope of the review

2.4 We focus on provision of retirement income products in the UK by the providers regulated by the FCA.[17]

Products and options in scope

2.5 Our review discusses the following products and options that allow consumers to access their DC savings or convert them into retirement income (see Chapter 3):

- annuities
- flexi-access income drawdown
- hybrid and blended products that combine the features of drawdown and annuities
- Uncrystallised Funds Pension Lump Sum (UFPLS) cash withdrawals
- full cash withdrawals

2.6 In assessing how competition works for retirement income products, where appropriate, we have also considered the provision of related services, such as accumulation products. However, assessing the effectiveness of competition for consumers at accumulation is out of scope of this review.

2.7 Consumers may use other products to save for retirement and draw on those savings, such as Individual Savings Accounts (ISAs) and equity release products. As set out in our Terms of reference, these products are out of scope of this review. The terms available on these products, such as charges, interest and also other factors such as consumer trust may affect demand for retirement income products. For example, in our review we found that many consumers prefer to keep their savings in ISAs or other savings accounts instead of pension products. However, we do not consider that the inclusion of these products within the scope of our review would have significantly changed our findings.

Advised vs. non-advised sales

2.8 In light of the wide-ranging work that is focused on financial advice, the scope of this review does not include issues relating to access to, or the value and quality of financial advice (Figure 7). Our focus is on consumers who are making decisions without regulated financial advice. Between October 2015 and September 2016, sales to consumers who did not take advice accounted for 63% of annuity sales and 30% of drawdown sales (see Chapter 3).[18]

17 Our analysis is largely based on the retirement income data collected by the FCA (see Annex 2). They cover most pension scheme and/or retirement income providers for UK DC personal and stakeholder pension arrangements. They include any DC occupational pension schemes provided by these firms and therefore include some trust-based plans in addition to most of the UK's contract-based plans. DB pensions and pension assets managed on behalf of third parties are excluded, e.g. trustee investment plans and pension investment plans.

18 Several 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.

Figure 7: FAMR

FAMR was launched in August 2015 in light of concerns that the market for financial advice was not working well for consumers. FAMR aimed to explore ways in which the Government, industry and regulators could take individual and collective steps to stimulate the development of a market to deliver affordable and accessible financial advice and guidance to everyone.

FAMR published its final report in March 2016 and set out 28 recommendations that focused mainly on three key areas:

- affordability – including proposals to make the provision of advice and guidance more cost-effective
- accessibility – recommendations aiming to increase consumer engagement and confidence in dealing with financial advice
- liabilities and consumer redress – recommendations to deal with concerns about future liabilities preventing stakeholders from giving advice today, while ensuring consumers still have adequate protection

The FCA and the Treasury published a progress report in April 2017 detailing the progress made towards implementing the FAMR recommendations, and will also conduct a review of the outcomes from FAMR in 2019.

Issues we looked at

2.9 In our Terms of reference, we set out to explore the following topics:

- **Shopping around and switching.** Given what we know already about the difficulties in shopping around for annuities, we want to understand the extent to which consumers can compare the larger range of products and options now available to them. We want to understand whether they can compare products, shop around, switch providers where they are not receiving what they want and make informed decisions.

- **Non-advised consumer journeys.** Now that consumers are accessing more complex products without advice, we want to understand in which ways non-advised consumer journeys have become more complex for consumers to navigate. We wanted to explore whether complexity causes consumers not to engage, choose the easiest option, such as withdraw their pot altogether, or leads them to being drawn towards certain products and choices.

- **Business models and barriers to entry.** As firms adapt to the changes we are seeing in this market, we want to explore what business models and products are emerging and what risks they might pose to competition. For example, how might firms' business models impact on consumer engagement and switching, and are there barriers to entry for challenger firms?

- **Impact of regulation on retirement outcomes.** Although proportionate regulation intends to bring positive outcomes, are there examples of FCA regulation that are overly burdensome and may be inadvertently contributing to barriers to entry or preventing useful product innovation by firms?

The evidence gathered to support our analysis

2.10 We gathered a wide range of evidence and data to assess the issues we set out to investigate (see Table 1).

Table 1: Evidence supporting our findings

Source	Description
Responses to our Terms of reference	We received 35 responses from 21 firms, 7 trade bodies, 2 non-governmental organisations, 2 charities and 1 government department (see Annex 1).
Consumer research	We commissioned two main pieces of consumer research: • **To understand non-advised consumer journeys:** qualitative consumer research (focus groups and in-depth interviews) with 171 consumers who had accessed their pots after the pension freedoms and had not sought regulated advice (see Annex 3). • **To understand consumer decisions to fully withdraw their DC pension savings:** quantitative consumer research with 1,000 consumers who had fully withdrawn a pension pot worth at least £10,000 and had not sought regulated advice (see Annex 4). We also reviewed publically available consumer research on how consumers have responded to the pension freedoms.
Data from retirement income providers	We used three main sources of firm data (see Annex 2): • **Retirement income data collected by the FCA.** In the Retirement income market study we committed to monitor market developments following the pension freedoms. To do this, we collect data on quarterly basis from a representative sample of retirement income providers. We have been publishing high-level statistics based on these data since January 2016. • **Bespoke data request on distribution channels and charges.** We issued a data request to 56 providers on charges paid by advised and non-advised consumers through various distribution channels. These data cover annuity and drawdown sales made between April 2015 and April 2016. • **ABI data.** These cover data on ABI members' sales since the pension freedoms. We also used data from Moneyfacts to assess trends in annuity rates paid on the open market.
Experimental testing	We commissioned experimental research on the extent to which different types of cost summary metrics may help consumers shop around for drawdown (Annex 5).
Meetings with external stakeholders	We met with a range of stakeholders including ten providers to understand how the market has developed and how firms have adjusted their business models following the pension freedoms.
International comparisons	We held interviews with regulators and government bodies from Australia, Canada, Denmark, Ireland, New Zealand and the US to assess whether other countries have faced or face similar issues to those in the UK and whether there are any lessons to be learnt.

Source: FCA.

Why are we publishing an interim report?

2.11 We are publishing this interim report to give all interested stakeholders an opportunity to understand and comment on our analysis. We set out our initial findings on how well competition is working in the market. We also set out our initial thinking on the potential remedies we are considering because of our findings.

3 Market overview

Chapter summary

The pensions and retirement income sector provides a way for consumers to save for retirement or later life. The retirement income sector allows consumers to convert their accumulation savings into income. The pension freedoms of 2015 hugely increased choice in how and when consumers can access those savings.

Consumers

Retirement income products are mainly bought with defined contribution DC pots. Currently, the size of these pots is relatively small and they are not the main source of private retirement savings for most retirees. Many consumers also have defined benefit DB pensions, the state pension and property as a potential source of retirement income. However, with automatic enrolment and the decline in DB schemes, it is expected that the role of DC pots as the main source of private retirement savings will grow. By 2030, £1.7trn is expected to be held in workplace DC pensions, a fivefold increase from the £340bn held in 2015. As a result, consumer needs in the retirement income market will change.

Over one million DC pots have been accessed since the introduction of pension freedoms. The proportion of consumers who have purchased retirement income products without using regulated advice has grown since pension freedoms: drawdown products bought without advice have increased from 5% before the freedoms to 30% now. Consumers with smaller pots are less likely to take advice. Although Pension Wise is available to provide fee and impartial guidance to consumers, take-up remains low.

Consumers are increasingly choosing to phase their retirement by gradually reducing their working hours and supplementing their income with pension savings. For example, in 2015, 39% of workers aged over 50 considered working part time or flexible hours before stopping work altogether as the best way to retire. For many consumers, the choice of a retirement income product is no longer a one off decision and is part of a continuous journey.

Providers of retirement income products

While there are more than 50 providers active in the retirement income market, these differ by target market and products offered. Seven large insurers have made over 50% of sales since the pension freedoms. Consumers who do not seek advice are mostly served by around 20 providers, which include large and medium-sized insurers and some of the larger self-invested personal pension (SIPP) providers.

3.1 This chapter provides an overview of the pensions and retirement income sector:

- the profile of consumers in the market currently and in the future
- the products available to them
- the providers offering those products
- the relevant regulatory landscape

Overview of the pensions and retirement income sector

3.2 Pension and retirement income products provide a way for consumers to save over their working life to fund spending in retirement or later life. Traditionally, this has involved two phases:

- The **accumulation phase** involves saving and growing assets for use in later life.[19] Individuals and their employers can contribute to different types of pension schemes, including DB schemes, DC schemes and hybrid schemes.

- The **decumulation phase** generally involves converting the assets held in DC pensions into income before or at retirement. Following the pension freedoms, members of DC schemes have a range of ways to do this, including fully withdrawing the pot, buying an annuity or investing in a flexi-access drawdown product. DB scheme members in contrast are automatically provided an income by their pension scheme, unless they transfer to a DC scheme.[20]

3.3 However, these two stages are no longer distinct as people increasingly choose phased retirement. In phased retirement, people gradually reduce their working hours and supplement some of the lost income by income from their pension fund. For example, in 2015, 39% of workers aged over 50 considered working part time or flexible hours before stopping work altogether as the best way to retire. In addition, 48% of 50-65 year olds who are not yet retired would like to still be working either full-time (13%) or part-time (35%) between the ages of 65 and 70.[21]

3.4 Our review focuses on whether the market is working well in the decumulation phase, including whether consumers have access to good value retirement income products that meet their needs. However, to assess the competitive dynamics in the market we also consider the role of the accumulation phase because:

- consumers often choose to buy their retirement income products from their accumulation provider

- some products, such as self-invested personal pensions (SIPPs), may allow consumers to both save and withdraw funds and so combine the accumulation and decumulation stages

The FCA's pensions regulatory responsibilities

3.5 The FCA regulates personal pension schemes (including those provided through employers, such as workplace personal pensions, and those arranged by individuals, such as SIPPs and stakeholder pensions). Occupational pension schemes are specifically excluded from our remit. We have an indirect interest in occupational pension schemes because we regulate the firms which provide investments and investment services to such schemes.

19 Consumers may also save for retirement in other ways - for example, through saving into an individual savings account or investing in property. These alternatives were not within the scope of our review.

20 Some employers providing DB schemes purchase an annuity for their members, so these consumers indirectly enter the decumulation market.

21 Attitudes of the over 50s to Fuller Working Lives, 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/394642/attitudes-over-50s-fuller-working-lives.pdf

3.6 The Pensions Regulator regulates occupational pension schemes which include DC and DB schemes and certain aspects (including administration in relation to auto-enrolment) of work-based personal pension schemes. The Government, through the Treasury and the Department for Work and Pensions, sets the overall framework for pensions.

3.7 As the FCA does not regulate occupational schemes, we did not consider them as part of this review. There are currently around 8.5 million members in DC occupational schemes (single employer and master trusts), accounting for 27% of the accumulation market.[22] We note that most DC occupational schemes do not currently offer retirement income products. Members of these schemes who wish to use the pension freedoms would have to transfer into a personal pension scheme. However, it is likely that an increasing number of these schemes, particularly master trusts, will offer retirement income products in the future:

- **Single-employer trusts:** Only around 10% of these schemes plan to offer drawdown in the future[23]. This is because trustees are concerned by the increased cost and investment risk that they would incur by providing such products to members who are no longer employees.
- **Master trusts:** There are currently only a small number of consumers entering decumulation from within master trusts, as most transfer to another provider.[24] However, master trusts may be interested in offering retirement income products as their members' pots grow in size over time. The 87 master trusts account for over 90%[25] of the newly auto-enrolled consumers in accumulation. The largest three schemes account for over 80% of members in master trust schemes, with NEST capturing 40% of all members.[26] At the moment, two large master trusts offer a partial drawdown option within their scheme and another large player is interested in entering this market.[27] NEST has recently expressed an interest in offering retirement income products, although the government has decided not to allow it to enter the market at this stage. Entry of these schemes may affect the competitive dynamics in the retirement income market in the future.

3.8 The retirement income market has recently been subject to a number of regulatory and other changes and several further initiatives that will impact on how this sector will develop in the future are currently underway. We summarise the main initiatives in Chapter 8.

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22 FCA data show that there were 23 million contract based DC pots as of September 2016. Source: FCA analysis of FCA retirement income market data collected from 56 providers, September 2016. According to tPR data, there were 8.5 million members of trust based schemes as of 31st December 2016: http://www.thepensionsregulator.gov.uk/doc-library/dc-trust-presentation-of-scheme-return-data-2017.aspx

23 Market Intelligence: UK Retirement Income – the long road to opportunity, 2016: http://www.spencejohnson.com/products/market-intelligence/retirement/1/uk-retirement-income.

24 Consumers who have transferred from a master trust to another provider to purchase a retirement income product are included in our consumer research and on-going data collection

25 Automatic enrolment, commentary and analysis, 2016: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2016.pdf.

26 The year of the master trust, 2014: https://www.spencejohnson.com/research/download/99.

27 Freedom and choice: how occupational pension schemes have implemented the pension flexibilities, 2016: http://www.thepensionsregulator.gov.uk/docs/freedom-choice-pension-flexibilities-report-march-2016.pdf.

Consumers of retirement income products

3.9 Over one million defined contribution pension pots have been accessed since pension freedoms. However, not all of these consumers have entered the retirement income product market as around half have decided to fully withdraw their pension savings as a cash lump sum.[28] Over £10.8 billion has been withdrawn by consumers since the pension freedoms.[29]

3.10 A large proportion of pots held by consumers aged over 55 have not been accessed yet: as of September 2016, 5.6 million of pots had not been accessed[30]. Some of these consumers may have made a conscious decision to leave their pot untouched while others may not have engaged with this decision yet, particularly if the pot is small.

3.11 As of September 2016, there were approximately 7.8 million consumers in the retirement income market.[31] Of these, about 600,000 had bought a drawdown product and 7.2 million held an annuity in payment.[32] This includes consumers who purchased annuities and drawdown before pension freedoms.

DC pension savings are not the most important source of pension income for most current retirees

3.12 Consumers of retirement income products are largely those who save for retirement through DC schemes.[33] Currently DC savings are small and not the main source of private pension savings for most retirees: 64% of pots accessed after the pension freedoms were worth less than £30,000.[34] Other sources such as the basic state pension (estimated to be worth around £200,000[35]) and DB schemes count more towards current pensioners' incomes.

3.13 The size and importance of DC pension pots relative to other sources of retirement income has implications for what consumers need from this market. Those consumers who have relatively small pots are not likely to use their DC pots for a retirement income which lasts throughout retirement. Instead they may withdraw their savings over a shorter period of time or in one go for immediate expenses, such as home improvements or paying off their mortgage.

28 FCA analysis of FCA retirement income market data collected from 56 providers, April 2015 - September 2016. The second statistic refers to the time period from October 2015 - September 2016 and refers to number of pots not number of consumers. Some consumers may have multiple pots.

29 This refers to all flexible payments from DC pension pots: Flexible Payments from Pensions, 2017: http://www.actuarialpost.co.uk/downloads/cat_1/HMRC%20Stats%20on%20Pension%20Freedoms.pdf.

30 FCA analysis of the FCA retirement income market data collected from 56 providers, September 2016. Note that these include small pots which may have been unclaimed by consumers.

31 Based on the total number of decumulation plans as at September 2016. FCA analysis of FCA retirement income market data collected from 56 providers, September 2016. Note: The FCA's retirement income market data is only from providers we regulate and therefore does not include data from providers who exclusively offer workplace schemes. Occupational schemes however account for around 27% of the accumulation market. There are currently around 23m personal pension schemes, and 8.5m occupational schemes (master trusts and single employer trusts). At present, only a small number of master trusts and single employer trusts offer decumulation options to their members in the form of drawdown. However we expect this to increase as a number of providers have expressed an interest to provide a drawdown option in the near future.

32 FCA analysis of FCA retirement income market data collected from 56 providers, September 2016.

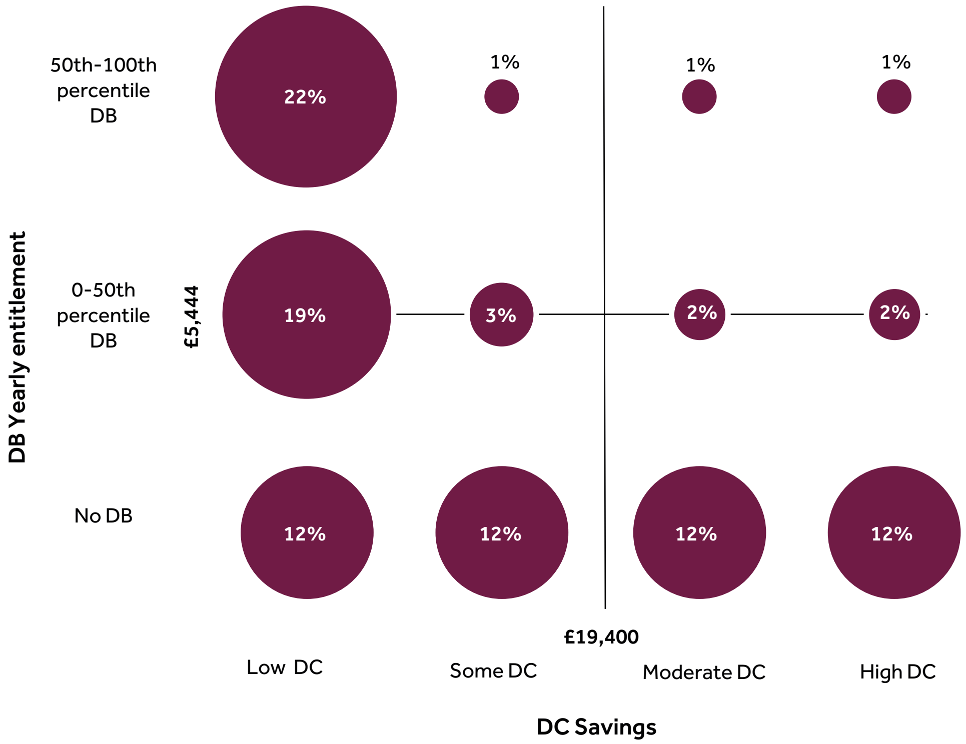
33 We only consider DB schemes where consumers transfer into DC schemes. Only in these cases do DB scheme members have to make active decisions on how to take their pension savings.

34 FCA analysis of FCA retirement income market data collected from 56 providers, October 2015 – September 2016.

35 From Me to you? How the UK State Pension System Redistributes, 2014: https://www.ifs.org.uk/uploads/publications/wps/WP201420.pdf.

3.14 However, DC schemes may be important sources of private retirement income for some consumers. Research by the Pensions Policy Institute estimates that around 24% of consumers have no DB scheme and moderate (12%) to high (12%) DC savings (Figure 8).[36] We expect this proportion to increase in the future as fewer consumers have a DB scheme and DC pots become the main source of private retirement income.

Figure 8: DC schemes are likely to be more important to people with moderate to high DC savings and no or low DB entitlement



Source: Adapted from Transitions to Retirement, 2014: http://www.pensionspolicyinstitute.org.uk/publications/reports/transition-to-retirement-defaults.

3.15 Defined benefit pension schemes currently provide consumers with a much greater source of income than defined contribution schemes. Table 2 below shows the percentage of consumers with each type of pension and the median value of the pension. For 55 to 64 year olds, the median value of DB pensions is approximately six times that of DC.

36 Transitions to Retirement, 2014: http://www.pensionspolicyinstitute.org.uk/uploaded/documents/T2R1%20complexity%20of%20decisions1.pdf.

Table 2: Value of and percentage of individuals with defined benefit and defined contribution pensions, July 2012 to June 2014

Type of pension	55-64 year olds	
	% with	Median value
DB	29%	£161,600
DC	32%	£25,000

Source: Private pension wealth, Wealth in Great Britain, 2012 to 2014, 2015: http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776_428635.pdf.

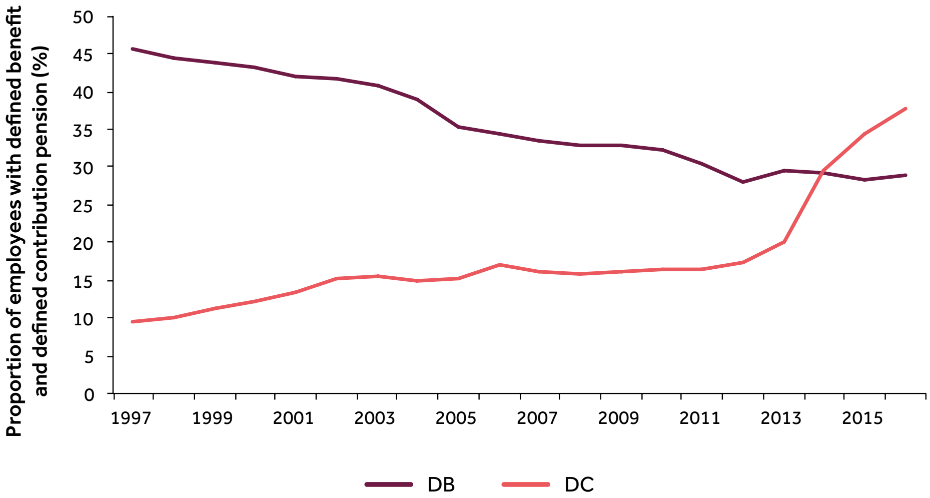
Note: this refers to pensions which are not yet in payment. As some 55-64 year olds will access their pension, the percentage of this age band with DB and DC pensions will be reduced.

DC pension savings will become more important sources of pension income for future retirees

3.16 However, the role of DC pots as the source of retirement income is expected to increase as DB schemes are in decline and automatic enrolment is resulting in more consumers saving for retirement through workplace DC schemes. As a result, DC pensions will increasingly form a significant portion of wealth and pension income.

3.17 Most DB pension schemes have closed to new members. Figure 9 below shows that the total membership of workplace DC schemes surpassed DB membership in 2014. In terms of assets under management, most pension assets (£1.5trn) remained in occupational DB schemes at the end of 2015. This compares to £340bn in workplace DC and £275bn held in individual DC personal pensions.[37] By 2030 however £1.7trn is expected to be held in workplace DC pensions, a fivefold increase on 2015.[38]

Figure 9: Proportion of employees in defined benefit and defined contribution pension schemes, 1997 to 2016



Source: Annual Survey of Hours and Earnings pension tables UK, 2015: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2016provisionaland2015revisedresults

Note: This figure includes occupational pension schemes, group personal pensions and group stakeholder pensions. It does not include individual personal pensions. Between July 2012 and June 2014, 9% of the UK population had an individual personal pension.[38]

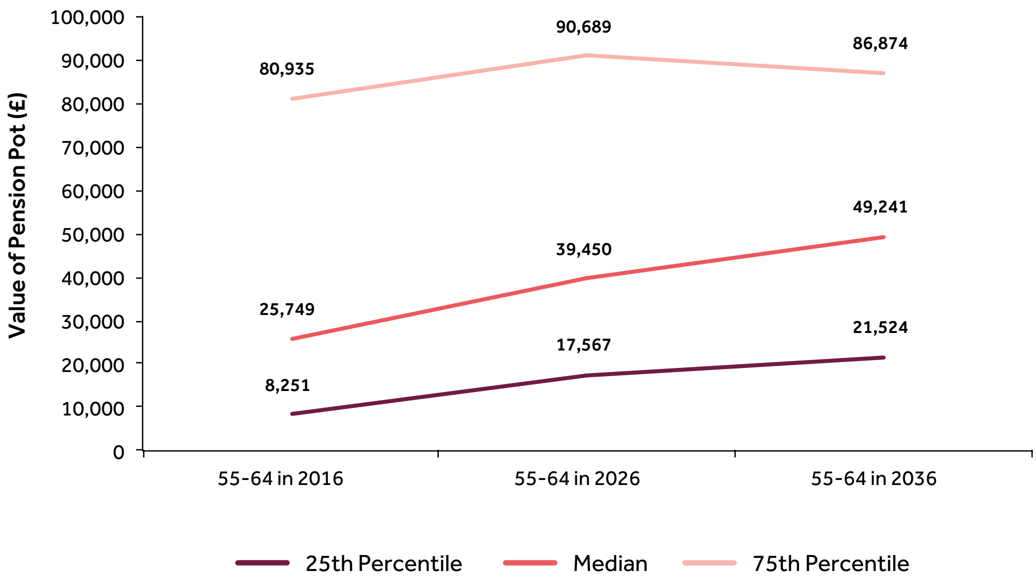
37 Asset Management in the UK 2015-2016: The Investment Association Annual Survey, 2016: http://www.theinvestmentassociation.org/assets/files/research/2016/20160929-amsfullreport.pdf

38 Assessing value for money in defined contribution default funds, 2014: http://pensions-institute.org/reports/ValueForMoney.pdf

39 Private pension wealth, Wealth in Great Britain, 2015: http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776_428635.pdf.

3.18 Automatic enrolment will continue to increase the number of people saving for retirement through workplace DC schemes. The value of DC pension pots will continue to rise. In 20 years' time median pot size is expected to increase to £49,000 (Figure 10), an increase of around 91%.

Figure 10: Predicted size of future retirees' DC pension pots, 2016-2036



Source: The Future Book: Unravelling workplace pensions second edition, 2016: http://www.pensionspolicyinstitute.org.uk/publications/reports/the-future-book-unravelling-workplace-pensions,-second-edition-2016

3.19 The UK population is also ageing. Currently there are around 11 million over 65's in the UK, representing around 18% of the total population. This share is expected to increase to 20% in 2025, and reach 24% in by 2045.[40]

What retirement income products are available to consumers?

3.20 Before pension freedoms, consumers faced several restrictions on when and how they could access their DC pension pots. Principally they had to buy an annuity at retirement unless they were eligible for drawdown by having guaranteed pension income of over £20,000 per year from other sources. Further, early withdrawals of cash over the 25% tax-free allowance incurred a significant tax penalty.[41]

3.21 The pension freedoms introduced more flexibility in when and how consumers can access their pension savings (Figure 11). Most notably:

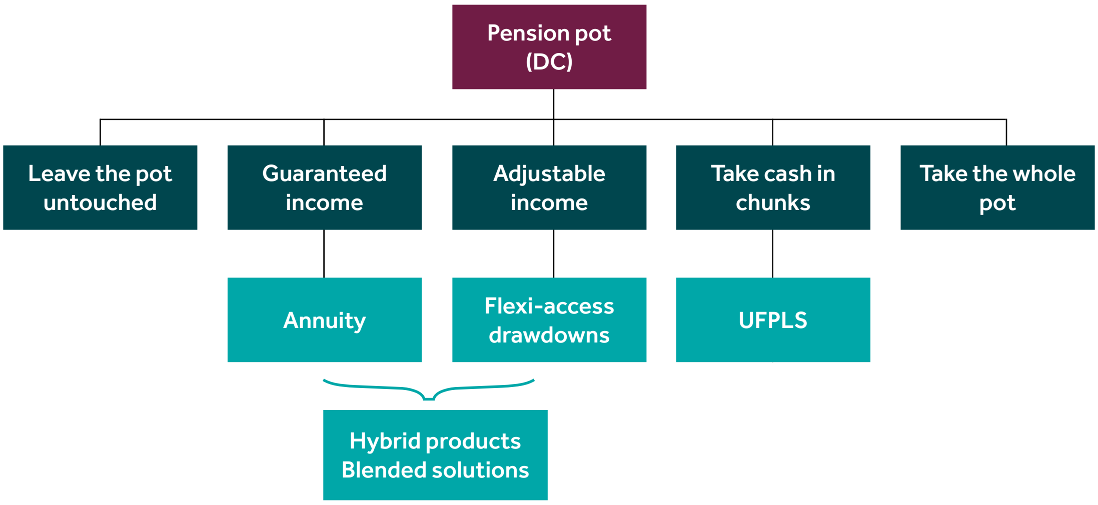
40 Overview of the UK Population, 2017: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/mar2017

41 This applied to any cash amount taken above the 25% tax-free entitlement and was considered an unauthorised payment that attracted a tax penalty of 55%. Small pots however were an exception. Consumers aged 60 or over with overall pension savings of up to £18,000 could take all of their savings in one lump sum (trivial commutation) and small pots up to £2000 could be taken as a lump sum. Interim changes between the 2014 Budget and April 2015 lowered the guaranteed pension income required for flexible drawdown to £12,000 and increased the trivial commutation amount to £30,000. Please refer to our 'Retirement incomes market study: Interim report' for full details of the changes: https://www.fca.org.uk/publication/market-studies/ms14-03-2.pdf

- consumers no longer have to buy an annuity if they do not wish to do so and can now choose from a wider range of products and options, including flexi-access drawdown which have become available to all, with no limits on withdrawal amount

- consumers can access their savings as they wish from the age of 55, including by fully withdrawing their pot (in this case, consumers have to pay the marginal rate of income tax on 75% of their savings)

Figure 11: Main options for how consumers, from the age of 55, can accesss their pension savings after the pension freedoms, April 2015



Source: FCA.

Note: Take cash in chunks refers to consumers who remain in accumulation and choose to crystallise chunks of their pension pot.

3.22 When consumers want to access their savings, they typically need to buy a retirement income product unless their accumulation scheme, such as a SIPP, allows them to withdraw funds from that scheme.

3.23 Each of these products and options are explained in more detail in Table 3 below.

Table 3: Key products and options within scope of the Retirement Outcomes Review

Product/option	Description
Annuities	A form of insurance policy that provides either a guaranteed income for life, or for a fixed number of years. Consumers cannot switch their annuity provider. **Product types:** A wide range of different annuity products are available in addition to **standard annuities**, for example: • an **enhanced or impaired annuity** provides a higher annuity income to a consumer with lower life expectancy • a **joint life annuity** allow a spouse/partner to continue to receive a certain proportion of the annuity income after the death of annuity holder • an **escalating annuity** protects against inflation **Key features:** guaranteed income; no explicit charges (cost is incorporated in the rate given); typically does not leave an inheritance; cannot switch.
Income drawdown (flexi-access drawdown)	Flexi-access drawdown involves investing a pension pot into a fund or funds, allowing the consumer to access their savings flexibly.[41] Drawdown is available within both self-invested personal pensions (SIPPs) and individual personal pensions (IPPs).[42] Drawdown providers offer a range of different investment funds, with different investment objectives, risks, and level of charges. **Product types:** Following the pension freedoms, flexi-access drawdown has replaced both capped and flexible drawdown. **Key features:** flexible access to savings; income is not guaranteed but depends on fund growth, costs and withdrawal strategy; consumers incur a variety of ongoing and ad-hoc charges; leftover funds on death are inheritable.
'Hybrid' products	Combines the features of drawdown and annuities: a hybrid product offers some level of guaranteed income and a degree of flexibility over withdrawal pattern. Consumers can switch their product provider. **Product types:** Hybrids include newer structured products and variable annuities that offer guaranteed death benefit, guaranteed withdrawal benefits and guaranteed income benefits, as well as more traditionally offered products such as with-profits and unit-linked annuities. **Key features:** some form of guaranteed income combined with flexible access; a variety of ongoing and ad-hoc charges.
Uncrystallised Funds Pension Lump Sum (UFPLS) cash withdrawals	An option through which consumers can access some or all of their pension pot without crystallising it. Consumers savings remain invested in the accumulation product. When making partial withdrawals, 25% of each withdrawal is tax free and the remaining 75% is taxed at the consumers'marginal rate of income tax. **Key features:** flexible access to pension savings; income is not guaranteed; charges depend on the charging structure of the accumulation product.

42 Individual pension schemes were in existence prior to the availability of drawdown. Providers have often added this option to the scheme to allow existing customers to use drawdown. 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.

43 We use our retirement income market data to gather information on the total number of drawdown policies entered into. This includes new drawdown sales as well as drawdown features which have been activated from within a pre-existing SIPP or independent personal pension.

Product/option	Description
Blended solutions/ products	An option that combines annuity and drawdown features into 'retirement accounts' where consumers and their advisers can pick and choose different combinations of products. For example, some portion of pension savings may be used to buy an annuity to provide a guaranteed income, while the rest may be used to meet flexible needs via drawdown. Given the complexity, blended solutions are largely sold through financial advisers.

Source: FCA.

3.24 All of these products and options are taxed, just in slightly different ways. All, except tax-free cash payments, are treated as income for tax purposes. A consumer's marginal rate of income tax determines the tax incurred.

3.25 We recognise that there are currently a number of other related products and options available to consumers to generate funds when they retire or otherwise access their pension savings. Consumers can generate an income through equity release products, individual savings accounts (ISAs) or buy-to-let property, amongst other sources. Many consumers also have a DB scheme provided by their employer. Looking ahead, we are also aware that the Lifetime ISAs introduced in April 2017 may become a vehicle that consumers use to save for their retirement. As set out in Chapter 2, these products are not within the scope of our review. [44]

Popularity of different products and options after the pension freedoms

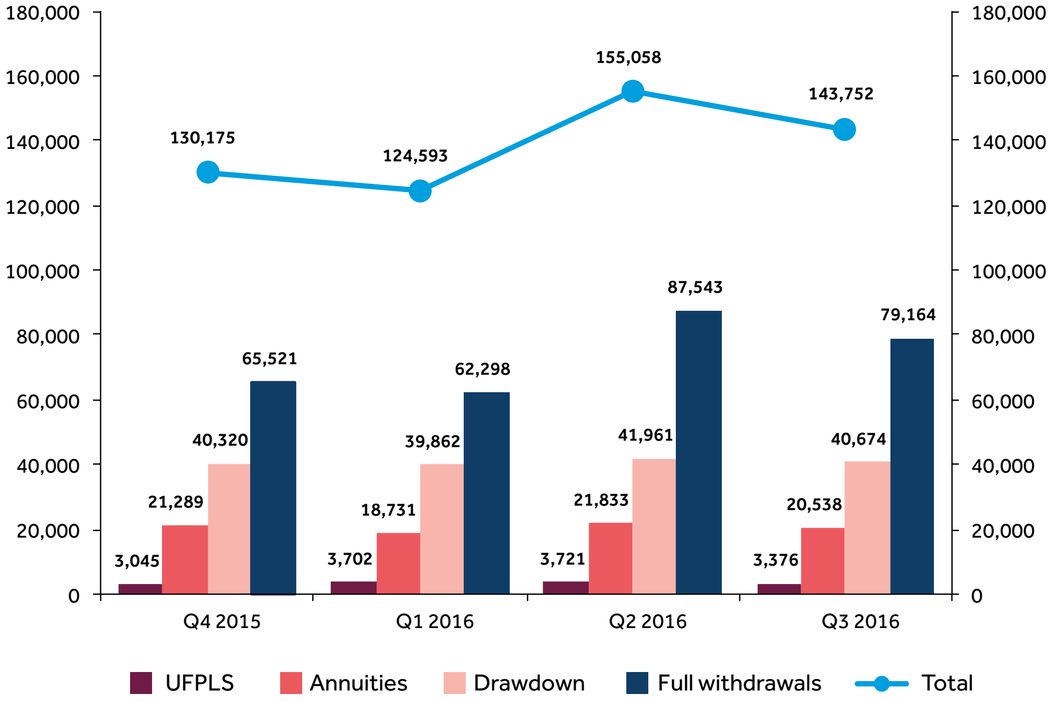
3.26 Our quarterly data show that consumers are using the wider range of options now available to them (Figure 12):

- the most popular option for consumers is to fully withdraw their pot
- drawdown is the second most popular option and has around double the sales of annuities in each quarter
- only a small proportion of consumers opt for the UFPLS option[45]

44 In April 2017, the Lifetime ISA was introduced as a form of Individual Savings Account designed for saving towards a first home or retirement. Individuals can open the accounts between the ages of 18 and 40, and save up to £4000 per year. Savings made up until the age of 50, and used either to purchase a first home, or taken out after the age of 60, will receive a 25% government bonus.

45 Fewer consumers may be taking UFPLS than opting for tax-free cash before entering into drawdown due to the difference in tax treatment. UFPLS requires consumers to pay the marginal rate of income tax on 75% of their withdrawal. Consumers taking tax-free cash before drawdown can choose to take up to their 25% taxfree lump sum without paying any income tax.

Figure 12: Product and option choices made by consumers who accessed their DC pots for the first time, October 2015 - September 2016

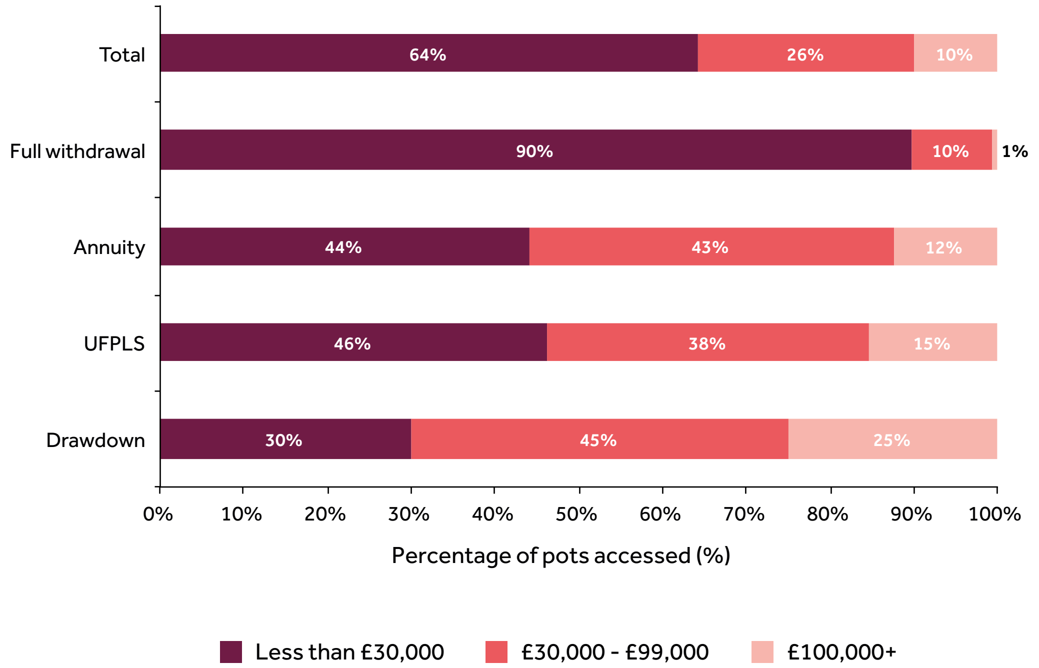


Note: FCA analysis of FCA retirement income market data collected from 56 providers.
Drawdown refers to partial income drawdown. Full withdrawal includes full withdrawals via drawdown, UFPLS or a small pot option.
This figure refers to the time period October 2015 – September 2016 as we do not have comparable data for the previous quarters.

3.27 Popularity of the different options chosen differs depending on the size of the pot (Figure 13):

- pots that were fully withdrawn tended to be smaller (90% below £30,000) than pots that were used to purchase retirement income products (30%-46% below £30,000)
- pots that were used to buy drawdown tended to be larger than those used to purchase annuities

Figure 13: Distribution of pot size used to take each product/option (pots accessed), October 2015 - September 2016



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

Note: Drawdown refers to partial income drawdown. Full encashment includes full withdrawals via drawdown, UFPLS or a small pot option. Some products/options do not add up to 100% as a result of rounding.

3.28 We assess these consumer choices further in Chapter 4.

Sources of support available to consumers

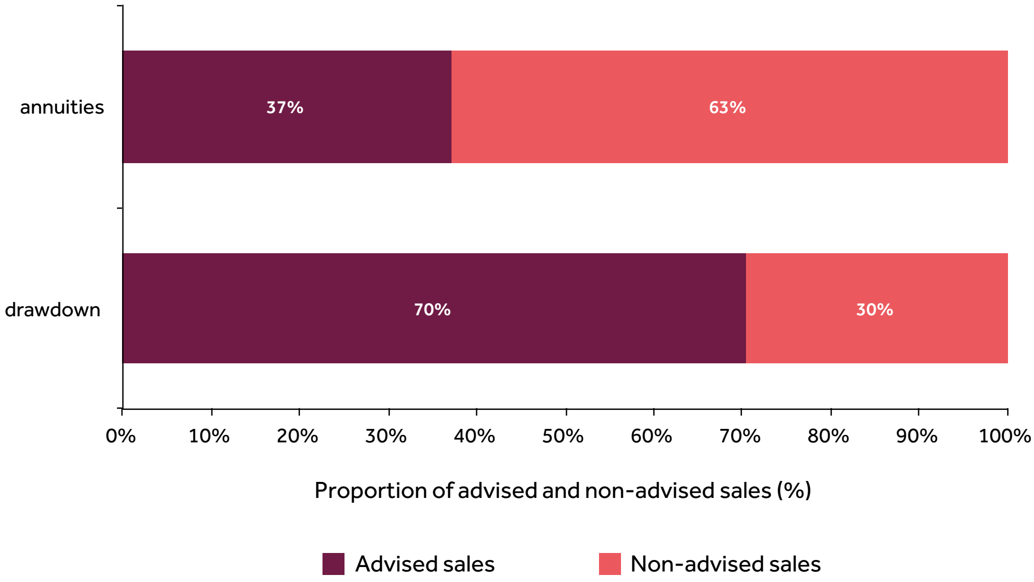
3.29 Consumers may use different sources of support, including regulated advice, guidance for instance from Pension Wise and/or informal support and advice from family and friends.

Use of financial advisers

3.30 Our review focuses on outcomes for consumers who do not take regulated financial advice. Between October 2015 and September 2016, sales to consumers who did not take advice accounted for 63% (52,000) of annuity sales and 30% of drawdown sales (Figure 14). While most consumers purchasing drawdown use the help of an adviser, sales to consumers who do not take advice still account for a significant overall number of sales with 48,000 sales between October 2015 and September 2016. In addition, an increasing number of consumers are purchasing drawdown without advice as before pension freedoms only 5% of drawdown products were purchased by these consumers.[46]

46 Retirement income market study: Interim Report, 2014: www.fca.org.uk/publication/market-studies/ms14-03-2.pdf.

Figure 14: Proportion of advised and non-advised sales for drawdown and annuities, October 2015 - September 2016

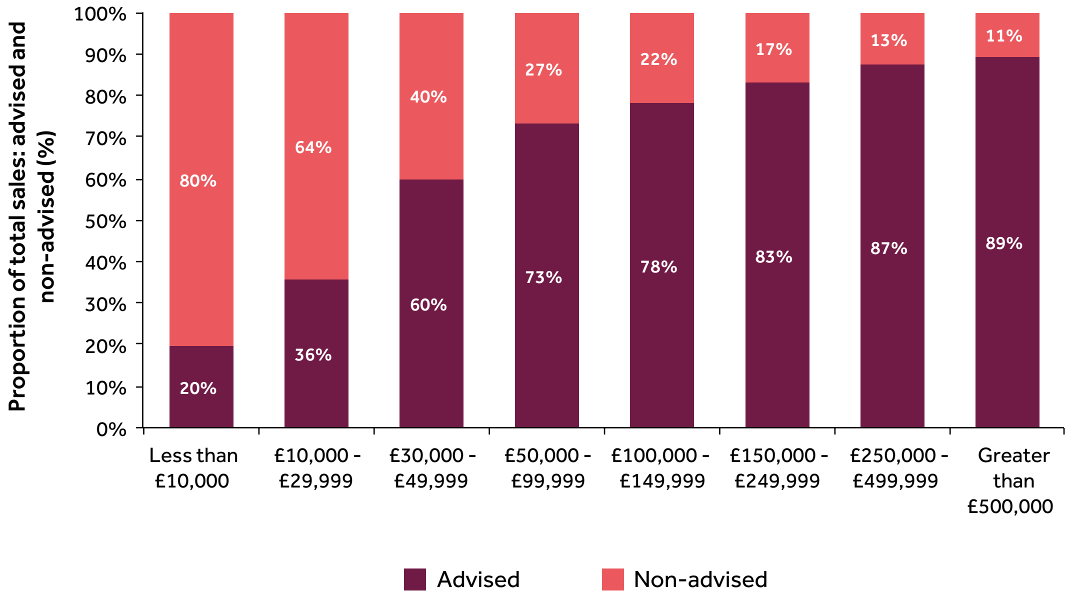


Source: FCA analysis of FCA retirement income market data collected from 56 providers.

Note: Drawdown refers to partial income drawdown.

3.31 Consumers with larger pots are more likely to seek advice than those with smaller pots (Figure 15). On aggregate and across all product types, the proportion of consumers seeking advice exceeds the proportion of consumers not seeking advice at around £30,000 - £49,000.

Figure 15: Proportion of advised and non-advised sales by pot size (all products), April 2015 - April 2016



Source: FCA analysis of distributional channel charges data collected from 55 providers.

Note: Includes drawdown and annuities.

Use of Pension Wise

3.32 The Pension Wise service was launched alongside pension freedoms in 2015. The service is targeted at consumers aged 50 or older with DC pension savings. It aims to provide tailored and independent information to consumers, free of charge. When consumers indicate that they want to access their pension savings, providers must direct them to Pension Wise.[47]

3.33 So far the take-up of Pension Wise has remained low. In the third quarter of 2016 143,752 consumers accessed their pensions but just 13,990 (or around 10%) had a Pension Wise appointment. However, consumers may also be accessing the information available on the Pension Wise website. Since launch, the website has received over 5 million visits.[48]

Providers of retirement income products

3.34 There are currently around 180 providers authorised by the FCA to establish, operate, and wind up a personal or stakeholder pension scheme. However, many of these providers are small and some are not currently active in the decumulation market. As at September 2016, the 56 groups in our retirement income market data accounted for 95% of the DC contract based accumulation market.[49] Most providers capture a similar proportion of the decumulation market as they do in accumulation. They include insurers, SIPP providers and asset managers.

3.35 As set out at the beginning of this chapter, retirement income products may also be provided by trust-based schemes, but we have not considered these as part of our review.

Provider strategies within the retirement income market

3.36 Within the retirement income market, there is a wide variety of provider strategies. These differ by:

- **The range of products offered:** 11 (22%) providers offer the full range of retirement income products[50], 33 (67%) offer drawdown only and a small number of providers offer annuities only. Providers offering the full range of products tend to be life insurers, while those offering only drawdown tend to be SIPP providers.

- **Consumer target market:** some providers focus on higher net-worth consumers and mainly distribute their products through independent financial advisers. Others also serve the mass market consumers who are not taking advice.

47 Our COBS rules and Principle 7 (Communications) require firms to signpost pension guidance to customers.

48 https://www.gov.uk/performance/pension-wise.

49 We estimated that 56 providers in the retirement income market data account for 95% of DC contract-based pension scheme assets. As most providers have a similar market share in decumulation as they do in accumulation, these 56 providers account for most activity in the decumulation market and there is a large tail of small providers which we have not included in the sample.

50 These include annuities, drawdown and UFPLS. According to the quarterly data provided by firms, a few firms also offer hybrid or blended products.

- **Whether products are offered to all customers or existing customers only.** Some providers only offer some products, such as annuities, to their existing customers and do not compete for customers on the open market, while other providers offer products to both new and existing providers.

- **Whether firms have an existing customer base.** The largest players in the market have existing accumulation customers to whom they can offer decumulation products. However, some of the smaller providers do not have such an existing customer base but have been successful at attracting customers, particularly in the enhanced annuity segment of the market.

3.37 Based on these differences, we have identified the main segments of the retirement income market in Figure 16. In summary:

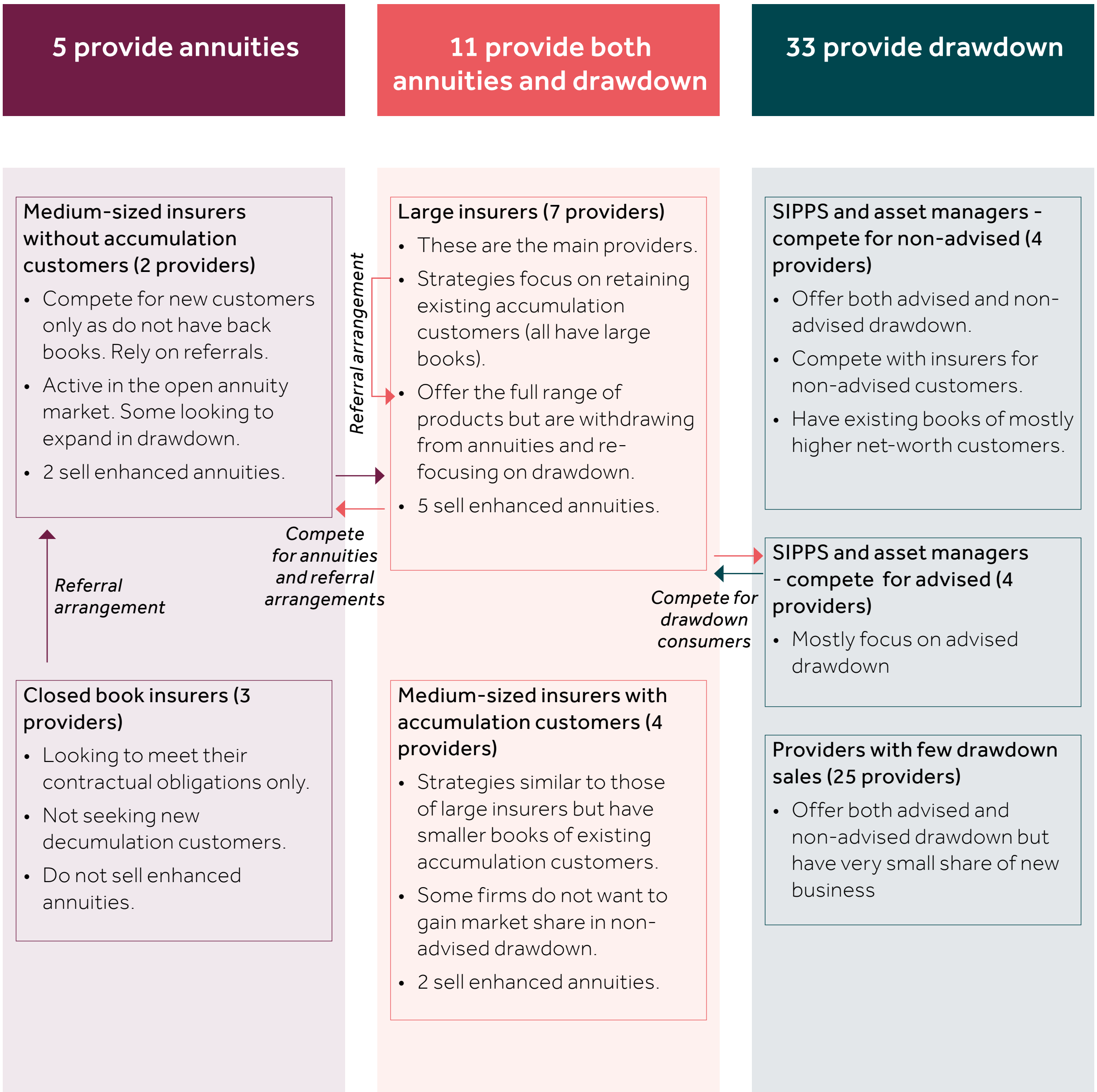
- large insurers provide the majority of drawdown and annuity products in the market

- medium-sized insurers capture a large part of the annuity market, particularly those without existing accumulation customers

- SIPPs and asset management firms capture significant drawdown sales and firms differ in how many advised and non-advised drawdown plans they sell

- there are a large number of providers with few drawdown sales

Figure 16: Provider strategies in the retirement income market by market segment as at September 2016



Source: FCA analysis.

Note: We have categorised providers using a combination of our supervisory knowledge of firms' business models and sales figures from the quarterly retirement income data collected by the FCA (Q4 2015-Q3 2016). All providers within a group have the following shares of total retirement income product sales (annuity, drawdown and UPFLS): large insurers (at least 4%), medium-sized insurers (1%-4%), larger SIPP providers that compete for advised/non-advised (1%-4%), and providers with few drawdown sales (less than 1%). This categorisation only reflects provider strategies and business models in the retirement income market; providers may have a greater or lesser presence in other financial markets, such as asset management.

3.38 Our review focuses on firms serving consumers who do not take advice. According to our data, only around 20 of these providers had a significant number of non-advised sales. These were:

- the seven large insurers
- six medium-sized insurers (four of these had existing accumulation customers while two of these did not)
- three closed book insurers
- four of the large SIPP providers and managers

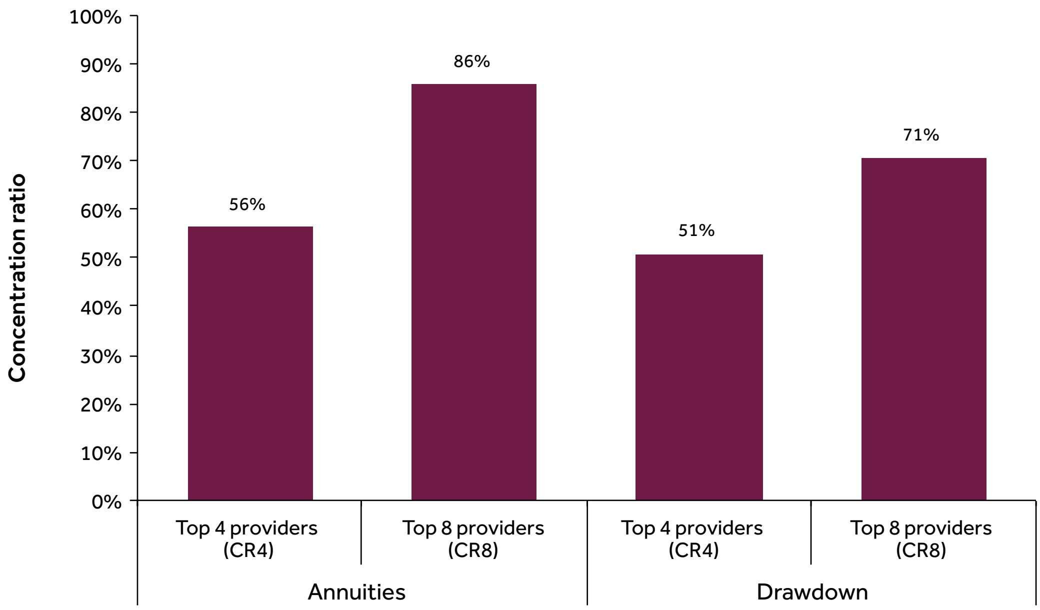
3.39 The other firms we collected data on either predominantly sold drawdown to advised/higher net-worth consumers or had a very small share of sales in the drawdown market (25 firms accounted for only around 0%-10% of sales). We considered that these firms were not focused on consumers that did not take regulated advice.

Market shares and concentration

3.40 Concentration in both the drawdown and annuity markets is relatively high (Figure 17):

- in the annuity market, the four largest providers account for 56% of sales and the top eight providers account for 86%
- in the drawdown market, the four largest providers account for 51% of sales and the top eight providers account for 71%

Figure 17: Concentration ratios in the drawdown and annuity markets based on the number of new product sales (advised and non-advised), July - September 2016



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

Note: Concentration ratios (CR) measure the total market share of the top four and eight largest firms in the market. We only present concentration ratios for July – September (Q3) 2016. There is little change in the concentration ratios from October 2015 – September 2016.

3.41 The market shares for the different types of firms captured by our firm segmentation are set out in Table 4 and Table 5. These have been reported in ranges due to confidentiality.

3.42 In summary, in the **non-advised drawdown segment of the market** (Table 4),

- the main players in the market by share of sales after the pension freedoms are the large insurers (60%-70% share of new sales), four of the SIPP providers/asset managers (20%-30%) and the medium-sized insurers with accumulation customers (10%-20%)
- three out of seven of the large insurers have a higher proportion of non-advised sales accounting for 40%-50% of the market share compared with the 10%-20% of the four other large insurers

Table 4: Market shares by number of drawdown sales, July - September 2016

Firm group	Non-advised drawdown	Advised drawdown	Total drawdown
Large insurers (7) of which:	60% - 70%	60% - 70%	60% - 70%
• large % of non-advised sales (3)	40% - 50%	20% - 30%	30% - 40%
• small % of non-advised sales (4)	10% - 20%	30% - 40%	30% - 40%
Medium-sized insurers without accumulation customers (2)	n/a	0% - 10%	n/a
Medium-sized insurers with accumulation customers (4)	10% - 20%	0% - 10%	0% - 10%
SIPPs and asset managers (8) of which:	20% - 30%	20% - 30%	20% - 30%
• compete for non-advised (4)	20% - 30%	0% - 10%	10% - 20%
• compete for advised (4)	0% - 10%	10% - 20%	10% - 20%
Providers with few drawdown sales (25)	0% - 10%	0% - 10%	0% - 10%

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

Note: We report n/a where providers have recorded no sales of a particular product. Closed-book providers do not offer drawdown. We only present market shares for July – September (Q3) 2016 because there is little change in the market shares in the previous quarters (Q4 2015 - Q2 2016).

3.43 In the **annuity market** (Table 5), we assessed shares separately for standard and enhanced annuities as we found that firm strategies differed by these segments. We found that:

- the seven large insurers account for most of the sales of **standard annuities** (60%-70%), with medium-sized insurers with accumulation customers and closed book insurers accounting for the rest of the business
- unlike with standard annuities, in the market for **enhanced annuities**, most of the shares are gained by medium-sized insurers without accumulation customers and the large insurers only account for around 20%-30% of sales

Table 5: Market shares by number of annuity sales, July - September 2016

Firm group	Standard annuities	Enhanced annuities	Total annuities
Large insurers (7)	60% - 70%	20% - 30%	50% - 60%
Other insurers (9) of which:	30% - 40%	70% - 80%	40% - 50%
• medium-sized insurers without accumulation customers (2)	0% - 10%	60% - 70%	20% - 30%
• medium-sized insurers with accumulation customers (4)	10% - 20%	0% - 10%	10% - 20%
• closed book insurers (3)	10% - 20%	n/a	10% - 20%

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

Note: We report n/a where providers have recorded no sales of a particular product. One closed book insurer did not provide us with any sales figures although it is still active in the annuity market. SIPPs and asset managers do not offer annuities. Providers with small share of drawdown sales only sell drawdown. However, one firm reported to sell annuities as well. We do not report it for confidentiality reasons. We only present market shares for July – September (Q3) 2016 because there is little change in the market shares in the previous quarters (Q4 2015 - Q2 2016).

3.44 In the **accumulation market** (Table 6), large insurers hold most accumulation plans on their back books (70%-80%), with medium sized insurers with accumulation customers and closed book insurers accounting for 0%-10% of plans.

Table 6: Market shares in accumulation (by total number of DC contract based plans) by market segment, as at September 2016

Firm group	Accumulation plans
Large insurers (7)	70% - 80%
Medium-sized insurers with accumulation customers (4)	0% - 10%
Closed book insurers (3)	0% - 10%
SIPPS and asset managers (8) of which:	0% - 10%
• compete for non-advised (4)	0% - 10%
• compete for non-advised (4)	0% - 10%
Providers with few drawdown sales (25)	0% - 10%

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

Note: Medium-sized insurers without accumulation customers are not included as they are not present in the accumulation market.

3.45 We discuss firms' competitive strategies in more detail in Chapter 5 and Annex 2.

4 How have consumers responded to the pension freedoms?

Chapter summary

Our research found that consumers have welcomed the increased flexibility brought by the pension freedoms. However, we also found that:

- Many consumers have fully withdrawn pots to move their savings elsewhere. This is partly due to lack of trust in pensions. Mistrust is an issue in itself, but can also give rise to direct harm if consumers pay more tax than they could have paid otherwise, or miss out on investment growth or other benefits.
- Consumers who access their pots early without taking advice typically follow the 'path of least resistance', accepting drawdown from their pension provider without shopping around. Withdrawing tax-free cash has become the new norm. Consumers focused on withdrawing their tax-free cash are not engaged with what to do with the rest of their pot. Few consider they are making a product choice.
- Consumers do not make use of the available information. While information and help is available from providers, Government bodies and others, there has been limited take up and limited effect.

4.1 In this chapter we set out:

- our findings on how consumers are using the pension freedoms
- our analysis of what is motivating consumers to make certain choices and whether they are making informed decisions

4.2 We focus on consumers not taking advice.

What we sought to investigate

4.3 For consumers, the pension freedoms introduced some welcome flexibility in how and when pension savings could be accessed. However choosing between options has become much more complex increasing the potential for harm. Consumers need to weigh-up many factors and risks to choose the options that best suit their needs. In our Terms of reference we said that we wanted to assess how well consumers not taking advice are dealing with this complexity. Specifically, we wanted to assess:

- **The extent to which consumers shop around for products and switch when better products are available.** Our previous work found that before the pension freedoms, consumers tended to remain with their existing provider which weakened competitive discipline on the incumbent providers. Now that consumers have a larger range of products and options, we wanted to explore whether it is more difficult to compare options, shop around, and switch providers.

- **Consumer journeys for consumers not taking advice.** Consumers not taking advice are now accessing more complex products and we wanted to understand whether they found it difficult to choose the right option. We also wanted to explore whether complexity causes consumers not to engage and choose the easiest option, for example withdrawing their pot altogether, or leads them to being drawn towards certain products or options.

4.4 If consumers make poor decisions then this could lead to harm in a variety of ways, for example by consumers:

- paying more in charges and/or tax
- running out of pension savings sooner than expected
- choosing unsuitable investment strategies
- not being able to access their savings as and when it suits them
- losing valuable benefits, such as guaranteed annuity rates (GARs), employer pension contributions or means tested state benefits

Evidence we gathered

4.5 We assessed the choices consumers are making using the quarterly data we collect from firms (see Annex 2). We also commissioned two pieces of consumer research (Table 7 and Annexes 3 and 4). With this research we wanted to understand the motivations and drivers for consumer choices:

- The first research piece explored how consumers had reached their decision to access their pot and how their interactions with their provider and other available support had influenced that decision.
- The second research piece investigated the choices made by consumers who had decided to fully withdraw their pots.

4.6 Our research was with consumers who hold products with contract-based providers regulated by the FCA.

Table 7: Questions explored in the consumer research we commissioned

	(a) Consumer journeys (Annex 3)	(b) Research on consumers who fully withdrew their pots (Annex 4)
Consumers:	Consumers not taking advice who had accessed their pot after the pension freedoms	Consumers not taking advice who had fully withdrawn at least one of their Defined Contribution (DC) pots worth at least £10,000
Approach:	• Focus groups and in-depth interviews with 171 consumers.	• A telephone survey with 1,000 consumers.
Main questions:	• How does the freedom to access pension savings from the age of 55 impact consumer journeys and decision making? • How well can consumers assess and compare their options? • How does the existing provider relationships affect consumer choices: – Does the way providers communicate affect consumer choices? – Do referral arrangements offered by some providers help consumers or deter them from shopping around?	• What consumers did with the money they withdrew? • What were their motivations and considerations? • Did they understand the choice? • For those who had a Guaranteed Annuity Rate (GAR), why did they give it up? • Did these consumers have other sources of retirement income?

Source: FCA .

4.7 We also reviewed publicly available consumer research and drew on the other sources of information gathered as part of this review, including responses to our Terms of reference (see Annex 1). In addition, Which? provided us with the results of consumer research specifically commissioned to inform this review, which we refer to in this chapter.[51]

How are consumers using their pension freedoms?

4.8 We assessed whether consumers are making use of the wider range of options now available to them. Our quarterly data cover all consumers, including those who did and did not take regulated advice before making a decision. Where possible, we discuss differences between these two groups.

51 Note that the sample of consumers Which? surveyed is slightly different to the sample of consumers we surveyed, so the results of these three pieces of research are complementary but not directly comparable. First, Which? surveyed both those consumers who did and did not take advice while our research only focused consumers not taking advice. Second, Which? only surveyed consumers who viewed their DC pot as having significant value, as well as regarding the funds accrued in their DC pots as playing an important role in their retirement income. Our consumer journey research did not restrict pot sizes, apart from our research on full withdrawals which was restricted to consumers who had withdrawn a pot worth at least £10,000.

Consumers are using the pension freedoms and are accessing their pots earlier

4.9 Before the pension freedoms, annuities were the most widely purchased product: in 2013, 90% of consumers purchased an annuity, while only 5% purchased drawdown and further 5% fully withdrew their savings.[52]

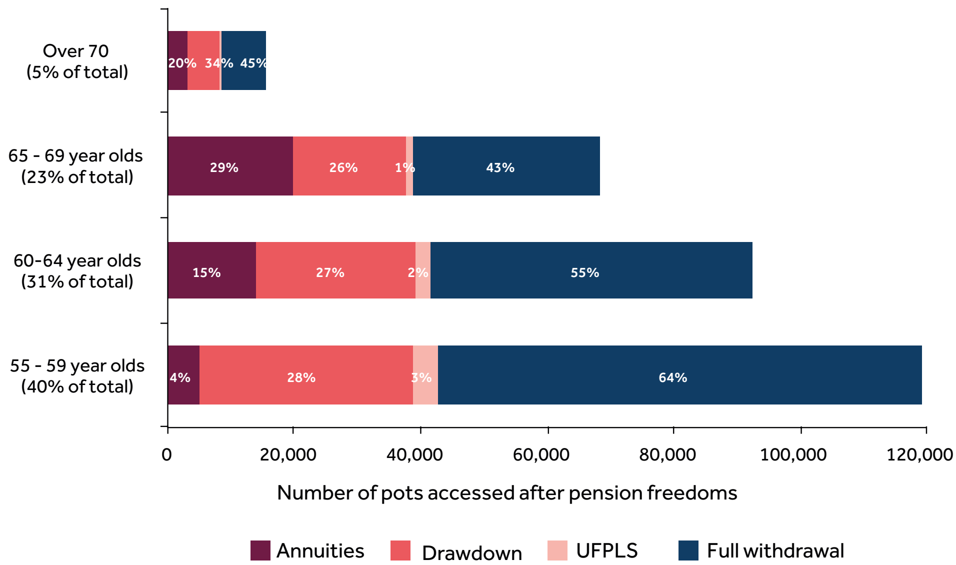
4.10 We found that the pension freedoms have fundamentally changed when and how consumers access their DC pension pots (Figure 18):

- Consumers are **accessing their savings early** and often before retirement: 40% of pots have been accessed by consumers aged 55-59 and 31% by those aged 60-64.[53]

- The most popular option has been **to fully withdraw the pot**, with 53% of pots fully withdrawn between October 2015 and September 2016.[54]

- **Drawdown** has become much more popular than annuities. Demand for drawdown has increased eight-fold, from around 5,000 sold in each financial quarter of 2013[55] to over 40,000 sold in the third quarter of 2016[56]. However, drawdown is mainly purchased by those further away from retirement, and annuities are still popular with those closer to, or in retirement: 29% of 65-69 year olds and 20% of over 70s who accessed their pots purchased an annuity.[57]

Figure 18: Consumer choices following the pension freedoms by age, April - September 2016



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

Note: Drawdown refers to partial income drawdown. Full withdrawal may be via drawdown, UFPLS or a small pot option. This figure refers to the period from April 2016 – September 2016. It does not include October 2015 – March 2016 as our data collected at this time did not segment full withdrawals by consumers' age. We do not present pots accessed for consumers under the age of 55 as this only represents 1% of total pots accessed.

52 https://www.moneymarketing.co.uk/issues/26-january-2017/annuities-down-but-not-out/

53 FCA analysis of FCA retirement income market data collected from 56 providers, April - September 2016. Note that this does not include October 2015 – March 2016 as our data collected at this time did not segment full withdrawals by consumers' age.

54 FCA analysis of FCA retirement income market data collected from 56 providers, October 2015 - September 2016.

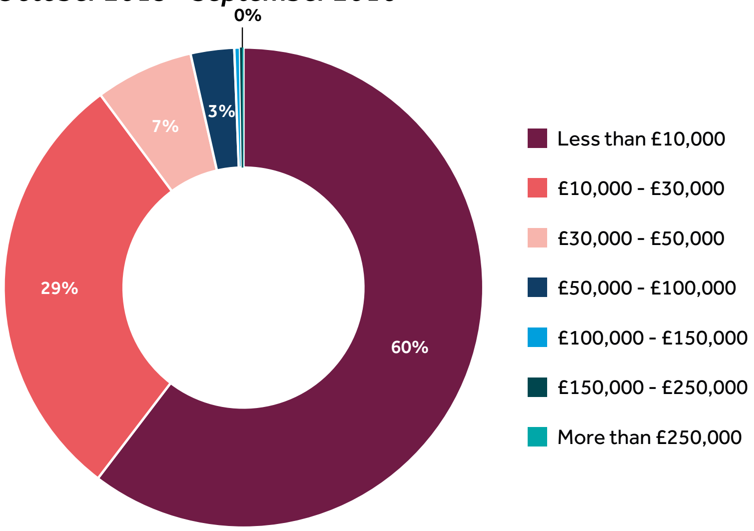
55 This figure assumes that 90% of DC pots accessed in 2013 were used to purchase an annuity, and 5% were used to purchase drawdown. Based on ABI annuity sales in 2013. The Future Book: Unravelling workplace pensions second edition, 2016: http://www.pensionspolicyinstitute.org.uk/publications/reports/the-future-book-unravelling-workplace-pensions,-second-edition-2016.

56 FCA analysis of FCA retirement income market data collected from 56 providers, July - September 2016.

57 FCA analysis of FCA retirement income market data collected from 56 providers, April - September 2016. Note that this does not include October 2015 – March 2016 as our data collected at this time did not segment full withdrawals by consumers' age.

4.11 Consumers fully withdrawing their pots tend to have less in them than those opting for other product options, as 90% of withdrawn pots were smaller than £30,000 (Figure 19 and Figure 13 in Chapter 3).

Figure 19: Sizes of pots that were fully withdrawn after the pension freedoms, October 2015 - September 2016



Source: FCA analysis of FCA retirement income market data collected from 56 providers.
Note: Purchases of drawdown have increased and purchases of annuities have decreased.

Consumers giving up GARs have smaller pots

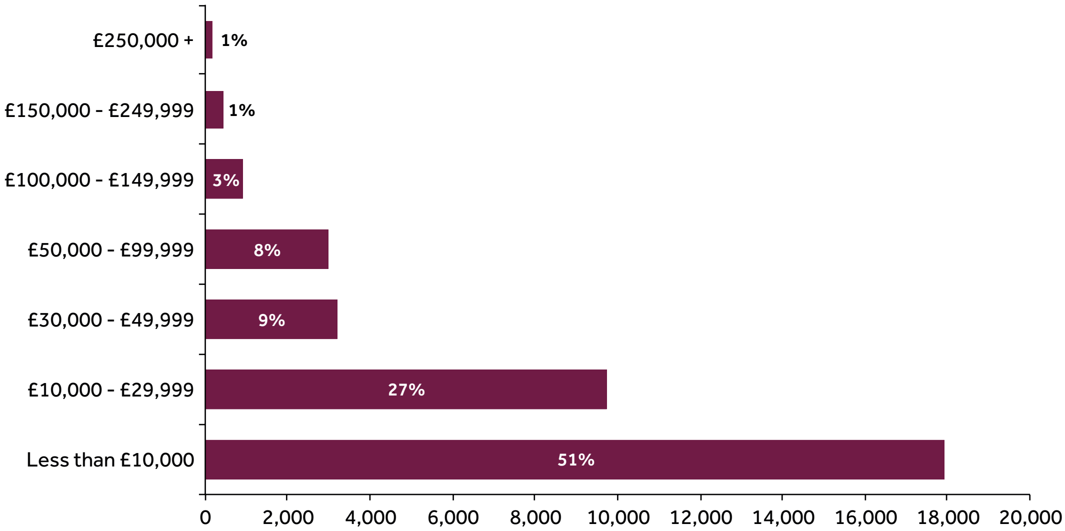
4.12 A GAR provides a policy holder the right to purchase an annuity at a guaranteed minimum rate, which currently tends to be higher than the most competitive rates available on the open market (and may even be double the market rate). While consumers can benefit from a GAR, it may sometimes be reasonable to give it up if an annuity does not meet consumer needs. In addition, there may be several restrictions in place, such as when it can be taken (e.g. only at age 65), the type of annuity (e.g. level, single life only) and when payments are made (e.g. once a year in arrears).

4.13 We found that after pension freedoms, 57% of consumers with a GAR gave it up, including by fully withdrawing the pot.[58] However, these amounted to only 6% of total pots accessed. Most consumers who gave up a GAR had a small pot, with 51% of the pots worth less than £10,000 and 78% worth less than £30,000 (Figure 20). These consumers may not have been willing to take out an annuity, given the small size of monthly payments they are likely to receive because of the small size of the pot.

4.14 However, 22% of consumers who gave up a GAR had a pot worth at least £30,000, though these accounted for only 1% of total pots accessed. We note that all of these consumers must have sought regulated advice. To ensure consumers who were considering giving up a GAR on a pot worth more than £30,000 were fully aware of the implications of their decision, the Government introduced a new requirement in April 2015 for consumers to take appropriate financial advice from an FCA authorised adviser before doing so.[59] As set out in Chapter 2, assessing access to and value of advice was beyond the scope of this review.

58 FCA analysis of FCA retirement income market data collected from 56 providers, October 2015 – September 2016.
59 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/495377/pension-benefits-with-a-guarantee-factsheet-jan-2016.pdf.

Figure 20: Sizes of pots for which consumers gave up their GARs, October 2015 - September 2016



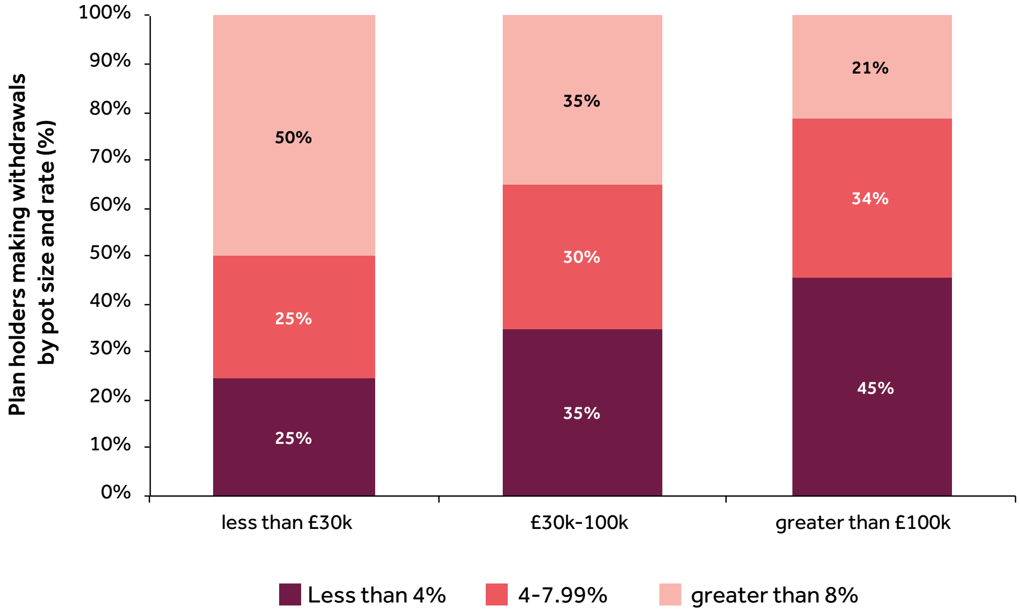
Source: FCA analysis of FCA retirement income market data collected from 56 providers.

Withdrawal rates

4.15 Consumers with drawdown need to decide on the withdrawal rate that is appropriate to them.

4.16 We found that consumers with larger pots tend to have lower withdrawal rates than those with smaller pots with 45% of those with pots greater than £100,000 withdrawing less than 4% compared with 25% of those with pots less than £30,000 (Figure 21). However, it is too early to draw conclusions on whether or not consumers are withdrawing at sustainable rates. Emerging evidence suggests that many consumers have accessed their pots to withdraw the tax-free cash and are not currently withdrawing regular income from their pots. In addition, consumers with smaller pots may want to withdraw their savings over several years instead of wanting their pot to last throughout retirement.

Figure 21: Distribution of plan holders making withdrawals by pot size and withdrawal rate, October 2015 - September 2016



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

Consumers not taking advice remain with their existing provider

4.17 In our previous work we were concerned that consumers were remaining with their existing provider without shopping around. In 2014 we found that 40% of consumers, who recalled purchasing an annuity, bought it from their existing provider.[60] Other sources[61] suggested 60%-68% of consumers stayed with their existing provider.[62] Nevertheless, all sources consistently indicated that there is a significant proportion that did not switch before the pension freedoms.

4.18 We were concerned that the complexity of the new landscape may make consumers even less likely to shop around. We found that, on aggregate, consumers not taking advice are much more likely to remain with their existing provider than consumers taking advice. Figure 22 shows that 70% of non-advised annuity sales and 94% of non-advised drawdown sales have been to providers' existing customers.[63] In comparison, only 35% of advised drawdown and 15% of advised annuity customers remained with their existing provider.

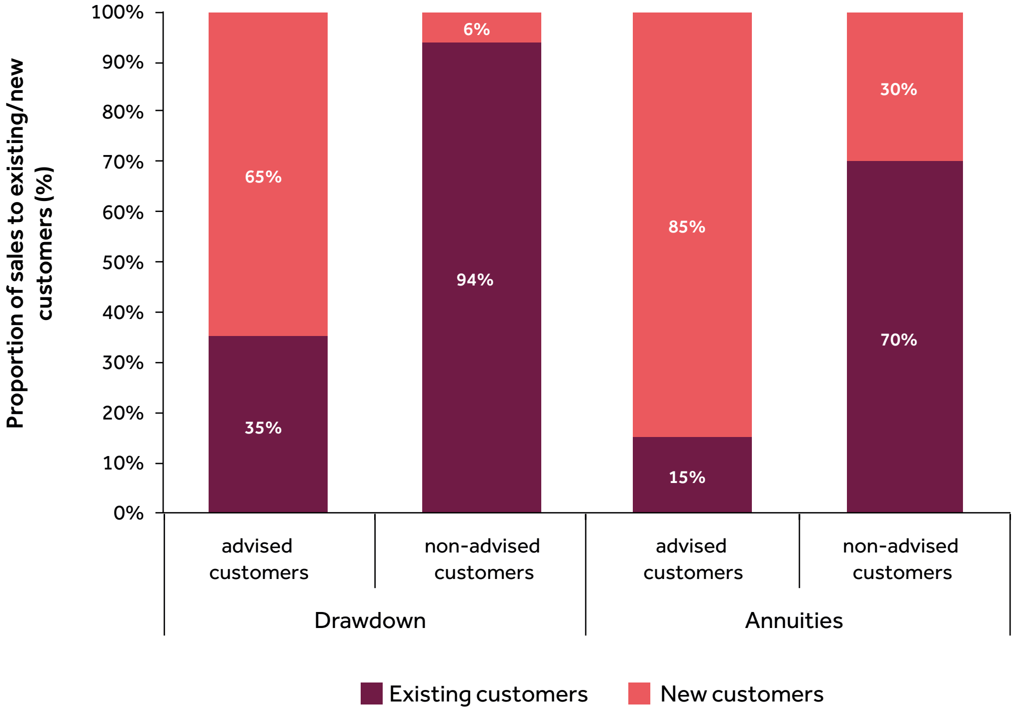
60 GfK: At Retirement Consumer research – exploring changes in the retirement landscape, December 2014: https://www.fca.org.uk/publication/research/rims-quantitative-research.pdf.

61 Thematic Review TR14/20: Annuities sales practices, December 2014: https://www.fca.org.uk/publication/thematic-reviews/tr14-20.pdf.

62 This difference may be explained by the fact that GfK's research also includes consumers buying annuities through a panel or a tied provider; hence GfK's finding does not necessarily reflect the proportion of consumers that shop around and switch provider.

63 Data from the Association of British Insurers collected from members, 2015 to 2017. Note that the sample of ABI members does not include all providers in the retirement income market and is not representative of all income drawdown sales.

Figure 22: Proportion of ABI member firms' sales to existing/new customers by whether the customer took advice, April 2015 - March 2017



Source: FCA analysis of ABI data, April 2015 – March 2017.

Note: The sample of ABI members does not include all providers in the retirement income market but is representative of most drawdown and annuity sales. See Annex 2 for more details.

Motivations and drivers behind consumer choices

4.19 The two pieces of consumer research we commissioned aimed to explore in-depth what motivated consumers to make the choices we observed. We also wanted to understand, more broadly, what journey the consumers not taking advice went through when making decisions and whether they could find and understand the relevant information.

4.20 In this section we discuss the main headline findings of that research. The more detailed findings are set out in Annexes 3 and 4. Overall, we found that:

- mistrust in pensions is one of the key reasons why consumers not taking advice fully withdraw their pots
- consumers accessing their pots early follow the 'path of least resistance' and buy drawdown without shopping around

The decision to fully withdraw pension savings is often driven by mistrust in pensions rather than genuine need for the money

4.21 Our consumer research explored why those consumers not taking advice had decided to fully withdraw their pension pots, what they did with the money and whether they had alternative sources of retirement income.

4.22 Overall, we are concerned that consumers are deciding to withdraw the money driven by mistrust in pensions rather than a genuine need for the money. While most had not spent the money, we are concerned that consumers may have paid more tax than necessary, may be missing out on investment growth or losing out on other benefits depending on their personal circumstances.

Motivations for fully withdrawing the pension pot

4.23 Our research found that the decision to withdraw money was largely driven by general mistrust in pensions.

4.24 Mistrust was typically based on the negative media coverage of the broader pensions sector, including DB schemes, rather than personal experience. Many consumers referred to the pension scandals they had read about in the press. Consumers also believed that the pension rules were unlikely to stay the same, so wanted to access their savings before the rules changed again.

> *"You just don't know what the Government will do, because they can change the rules at any time."*
>
> Male (55-59), £75k-£250k pot, full withdrawal
>
> *"I've since realised I have another one (pension). With the Government saying they will stop people cashing in, I might do that one as well. It was on the telly this morning."*
>
> Female (53-54), £31k-£75k pot, full withdrawal
>
> Source: Consumer research commissioned by the FCA, Annex 3.

4.25 Mistrust was also driven by a perception that their pension money was 'doing nothing' sitting in the pot. Further, consumers felt that pensions are impossible to understand and are risky. Consumers therefore preferred to move their savings to products they could understand and believed they could trust, such as Individual Savings Accounts (ISAs).

> *"I knew I didn't want to leave it in the pension pot, because my view is that there won't be anything left by the time I pull it out… I've never believed in pensions."*
>
> Female (60-79), £10k-£30k pot, full withdrawal
>
> *"I didn't seek any advice from anything or anyone, because I thought I can do it. I mean, I'm not stupid or thick, but when I see that word annuity – that word, I can't even say it – I don't know what it means. I can't get my head around it. So I hear all that and I think I don't understand it. Just give me the money and let me put it where I can control it. I just think, if I've got the money in my hand that's where it is, and I can see what I've done with it."*
>
> Female (55-59), £10k-£30k pot, full withdrawal
>
> Source: Consumer research commissioned by the FCA, see Annex 3.

4.26 Further factors that contributed to consumers withdrawing their savings were a general perception that annuities do not provide good value for money as well as a focus on the present rather than longer term needs. Consumers typically described the income an annuity could provide as not large enough to make much of a difference when compared to having access to a lump sum now. This could be partially explained by these consumers having relatively small pots.

> *"I went with an open mind, but the payments coming back to me monthly, with £14,000, would have been a pittance."*
>
> **Female (60-65), £10k-15k pot, full withdrawal**
>
> *"After looking at how much the annual annuity [that could be purchased with this pot] would be, even if I lived to 90 I'd still have a lot left in my pension. So I decided that I wanted to go on a cruise."*
>
> **Female (66-70), £10k-£15k pot, full withdrawal**
>
> Source: Consumer research commissioned by the FCA, see Annex 4.

4.27 The findings on mistrust are consistent with other research. In particular, consumer mistrust in accumulation products is well documented, as one of the Government's objectives for automatic enrolment was to increase transparency and build trust, confidence and engagement in pension saving as the norm.[64] Other research by NEST also heard repeated concerns about trust with consumers equating investment with casino-style gambling.[65] It found that:

- consumers wanted their pensions to be safe and reliable but they associated the industry with corruption and mismanagement
- the financial crisis and pension scandals had made people more wary of investing by increasing fears that their money could be lost

Consumers who gave up a GAR by fully withdrawing a pot

4.28 Amongst those who fully withdrew their pots after the pension freedoms, only about 9% had a GAR.[66] Most of these pots were small, with around 90% worth less than £30,000.[67]

4.29 Our in-depth consumer research (Annex 4) showed that 80% of consumers who had a GAR and took full withdrawal were aware that they had one[68]. All of these consumers had a pot of at least £10,000. These consumers' motivations in taking full withdrawal were in line with consumers overall. In particular, consumers with a GAR did not think the income they would receive from their annuity was 'good value'. This perception could be partly explained by these consumers receiving relatively small annual quotes due to small pot sizes. Also, consumers preferred to have money now rather than later. This is a well-established behavioural effect (present bias) we have also seen in our other work.

64 2010 to 2015 government policy: automatic enrolment in workplace pensions, May 2015: https://www.gov.uk/government/publications/2010-to-2015-government-policy-automatic-enrolment-in-workplace-pensions/2010-to-2015-government-policy-automatic-enrolment-in-workplace-pensions

65 NEST: Improving consumer confidence in saving for retirement, July 2014: http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/improving-consumer-confidence-in-saving-for-retirement%2CPDF.pdf

66 Or 5% of total pots accessed. FCA analysis of FCA retirement income market data collected from 56 providers.

67 Or 5% of total pots accessed. FCA analysis of FCA retirement income market data collected from 56 providers.

68 We note that the sample was small as only 64 consumers who participated in this research had a GAR.

"I wasn't interested in taking it [GAR]. Preferred to take the cash, because it was saying money from the annuity would be too little. [Used pot] to pay off mortgage because it outweighed any monthly income I would have had from it. The mortgage was £250 a month, so straight away I was saving £250 a month. The annuity was only going to give me £33 or something like that."

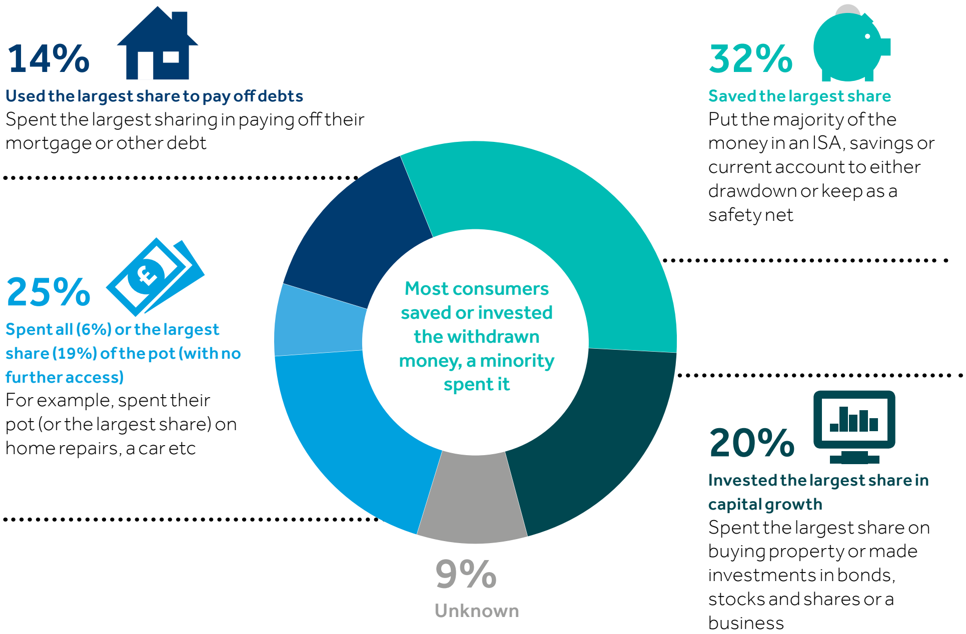
Female (60-65), £10k-15k pot, full withdrawal

Source: Consumer research commissioned by the FCA, see Annex 4.

What did consumers do with the fully withdrawn pot?

4.30 Our consumer research found that only around a quarter of consumers had spent the withdrawn pot (Figure 23). Most of these consumers had small pots (84% below £30,000). Further 14% had used the money to pay off debt, with around the third of these consumers saying that the debt they paid off had been a significant burden. However, overall, most of the consumers (52%) had saved or invested the money elsewhere, such as in an ISA, other investments or property. We do not, therefore, see this as evidence of consumers 'squandering' their pension savings.

Figure 23: Most consumers saved or invested the withdrawn money; a minority spent it



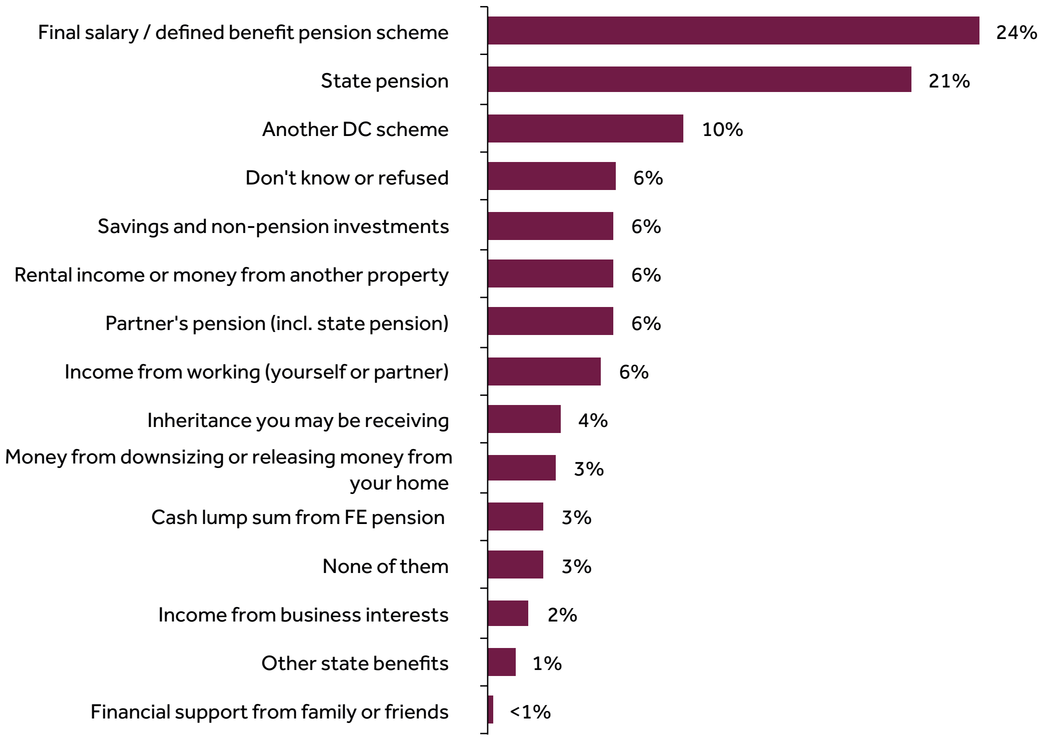
Source: Consumer research commissioned by the FCA, Annex 4.

Did consumers have other sources of income?

4.31 Consumers who withdrew and spent their DC savings may risk having insufficient income in later life if they do not have other sources of retirement income. As part of our consumer research we therefore considered people's broader retirement savings.

4.32 Consumers were most likely to state that a DB pension would be their most significant source of income in retirement (24%), followed by the state pension (21%) and other DC schemes (10%; Figure 24).[69] On average, consumers had two DC pension pots and one DB pension. Across all consumers, the average total amount of DC savings - excluding the withdrawn pot - was £40,000. The average expected annual income from DB pensions was £12,000.[70] As set out in Chapter 3, with automatic enrolment and the decline in DB schemes, it is expected that the role of DC pots as the main source of retirement income will grow.

Figure 24: Most significant source of income in retirement



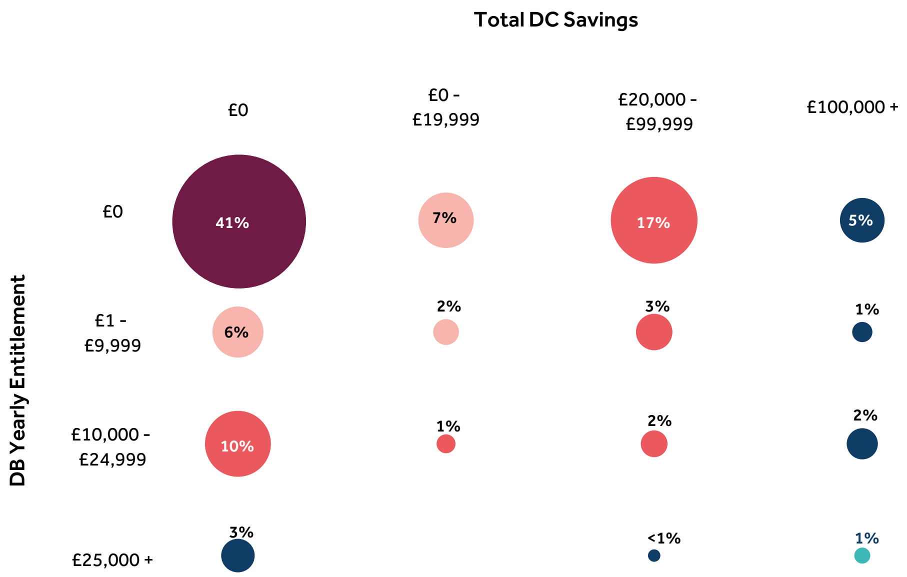
Source: Consumer research commissioned by the FCA, see Annex 4.

69 Some consumers also expected income from working. This could be explained by the fact that 85% of consumers were aged under 65 and the majority were still working in some capacity (57% working full time, working part-time or semi-retired). For the majority of those, retirement was still some distance in the future (57% of those not currently retired envisaged retiring in between two and ten years and 22% thought retirement was more than 10 years away). Source: Consumer research commissioned by the FCA, Annex 4.

70 To receive annual annuity income of similar size, a consumer would need a DC pot worth around £250,000.

4.33 For 41% of consumers the withdrawn pot was their only private pension arrangement, as these consumers had no other DC or DB savings (Figure 25). A further 15% of consumers only had additional low DC pension pots and/or DB pensions.

Figure 25: Other sources of DC or DB retirement income

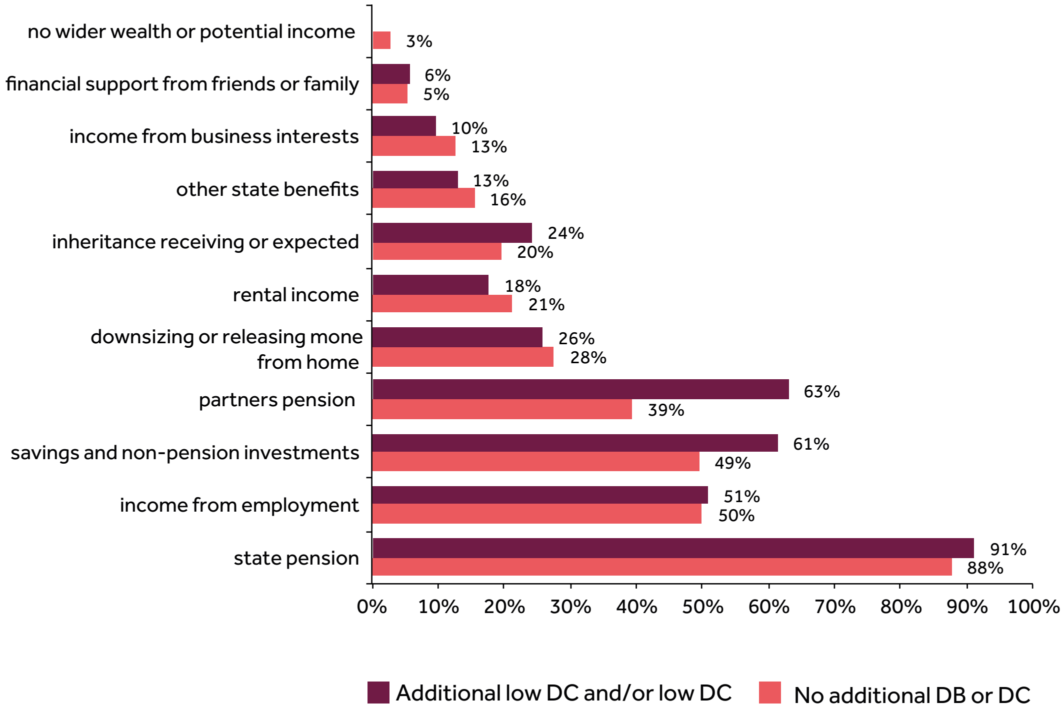


Note: 151 consumers did not provide information on the value of their additional DB or DC pension and we have excluded them from our calculations in this figure. There were no consumers with a DB yearly entitlement greater than £25,000 and DC savings between £0 and £19,999.

Source: FCA analysis of consumer research commissioned by the FCA, see Annex 4.

4.34 However, most consumers with no or low other DC or DB savings had other sources of retirement income[71], most commonly the state pension (Figure 26). 64% of those consumers with no other DB or DC savings had three or more other sources of retirement income.

Figure 26: Wider wealth of consumers



Source: FCA analysis of consumer research commissioned by the FCA, see Annex 4.

Note: 348 consumers had no additional DB or DC pensions. 124 consumers had additional low DB and/or low DC pensions. Sources of income are not mutually exclusive: consumers can have multiple sources.

71 Pension Credits guarantee a minimum level of income at state pension age. However, research indicates that only one in three consumers who are entitled to Pension Credits claim them which may explain why some consumers in our research did not expect any other income apart from their withdrawn pot.
Source: https://www.moneyadviceservice.org.uk/en/articles/pension-credit.

4.35 More broadly, only 6% of all consumers said they would either have no wider wealth or potential income or that they would solely rely on the state pension and/or benefits.[72] Many of these consumers could still access the withdrawn pot as 41% had saved or invested most of the withdrawn money.[73] Further 4% had used most of the money to pay off debts. That said, 27% of consumers had spent all or the largest share of their withdrawn pot on, for example, home improvements, holidays or had passed on the money to family. However, most of these consumers had relatively small pots with 80% below £29,000 and 40% worth £10,000-£14,999.[74]

What information did consumers consider?

4.36 While information and help is available from providers, government bodies and others there has been limited take up and limited effect. Our research showed that 42% of consumers looked for information or guidance from Pension Wise while 22% said they did no research at all.[75] However, the most common considerations centred on tax and charges although few knew the intricacies of this and a number voiced shock at receiving a much higher tax bill than anticipated.

> *"Well, [tax] hit me a bit harder than I thought it would. I thought the tax on the whole sum would be about 25%, but it ended up being closer to 35%. It never got explained to me at the time."*
>
> **Male (55-60), £15k-30k pot, full withdrawal**
>
> Source: Consumer research commissioned by the FCA, see Annex 4.

4.37 Our consumer research found that few consumers understood what happens to unused pots upon death and why pensions might be more favourable than other savings vehicles for inheritance tax planning. Consumers also did not know that money in a pension is treated differently for means tested benefits, social, and long term care compared to other types of saving. A small number of basic rate tax payers also were not aware they could pay 40% of their pension withdrawal as they did not understand what 'marginal tax rate' meant.[76]

Early access to pension savings leads to consumers buying drawdown without shopping around

4.38 We found that following the pension freedoms many consumers are deciding to access their pension savings early. Our consumer research indicated that withdrawing the tax-free proportion of the pot (25%) has become the new norm, with many perceiving this money as 'windfall'. Which? consumer research also found that withdrawing the tax-free proportion of the pot was very popular with 56% of consumers in their research taking this.

4.39 Several factors motivated consumers to access their savings early. The reasons given were varied, indicating that this is an area with multiple layers of complexity, but the primary motivations that emerged from our research were a general climate of mistrust, perceptions that annuities offer poor value for money and beliefs that pension rules change frequently (Figure 27).[77]

---

72 We have grouped together these consumers as we consider they would have/be eligible for income, at least, equivalent to the state pension. Source: FCA analysis of consumer research commissioned by the FCA, Annex 4.

73 23 consumers saved or invested most of the money. Most pots (83%) were below £29,999.

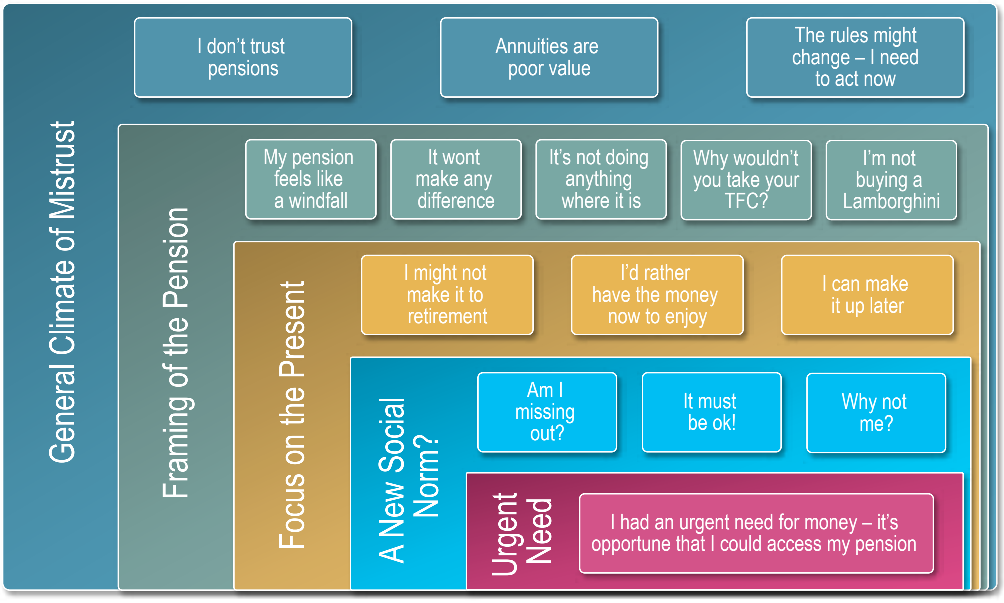
74 15 consumers spent all or the largest share of their pot.

75 Consumer research commissioned by the FCA, Annex 4.

76 Consumer research commissioned by the FCA, Annex 3.

77 Which? also observed a number of factors influencing some consumers' choices – these included a lack of awareness of alternatives, fear of the unknown and fear of change.

Figure 27: Amongst all respondents, several factors motivated consumers to access their pension early



Source: Consumer research commissioned by the FCA, see Annex 3.

4.40 We found that as a result of consumers focusing on withdrawing their tax-free cash 'windfall' before they retire, they are not engaging with the decision about what to do with the remainder of the pot. Our data show that around 72% of consumers who partially accessed their pots through drawdown or UFPLS were aged 55-65. Few had accounted for the pot they had accessed as savings for retirement, and had considered it as money 'locked away' and 'forgotten all about'. When they became aware that they could access the tax-free cash in their pension pot they opted to take advantage of this perceived windfall rather than use their other savings.

> ***"I had a few savings I could have accessed, but that's my Christmas box money. Taking my pension money was like winning the lottery, well actually the pension was not that much, but I had a similar feeling that I had won something that I did not know I had."***
>
> Male (55-59), £10k-£30k pot, partial withdrawal
>
> ***"I've got some savings. I've got some rainy day money – but this was like free money."***
>
> Male (55-59), £30k-£75k pot, partial withdrawal
>
> Source: Consumer research commissioned by the FCA, see Annex 3.

4.41 Our consumer research with consumers not taking advice found that hardly any shopped around, with many not even aware what product they had, what the charges were or what they were invested in. Most did not consider that they had made a choice about a retirement income product at that stage. As a result hardly any considered what to do with their remainder of the pot, with most taking the 'path of least resistance' and purchasing drawdown with their accumulation provider.

4.42 When asked directly by our research moderator to talk through the pros and cons of searching the market for an alternative drawdown provider, most said that they doubted there would be much to gain by moving elsewhere and generally felt that there would be little difference in the products on offer. Most had no idea where to go to shop around, or how to compare one drawdown proposition against another. If forced to choose, they would most likely focus on general features, such as brand recognition or trust rather than specific features such as charges or fund choices. Furthermore, a lack of familiarity with this area meant that consumers were often scared that they may be open to a scam and therefore felt their provider was a 'safe bet'.

4.43 Further, data from several providers[78], suggest that many consumers purchasing drawdown to access their tax-free lump sum were not withdrawing any further income from those products. These providers estimated that between 60% to 80% of their new drawdown customers were in so called 'zero income drawdown', with one provider noting that the majority of such customers had not taken advice. Other sources[79] suggest 76% of new drawdown customers are not withdrawing any income from their drawdown product. Respondents to our Terms of reference also raised similar issues. Stakeholders were concerned that there are no incentives to shop around for the large number of consumers that only wish to withdraw the tax-free cash from the age of 55.

4.44 This lack of shopping around for non-advised drawdown means that there is likely to be low competitive pressure on existing providers to offer good deals. As a result, consumers can pay higher charges or receive products of lower quality. We are also concerned that consumers may not be making informed decisions about the investment strategy that is most appropriate to them. We discuss the issues that arise with drawdown in more detail in Chapters 6 and 7.

Information has a limited effect in helping consumers think through the implications of their decisions

4.45 Overall, our consumer research suggests that the information given by providers has limited impact on consumer decision making. This is particularly true when the information aims to encourage consumers to think through the potential implications of withdrawing their pension savings.

4.46 Our consumer research found that this is largely because most consumers who had accessed their pot early had a very fixed view on what they wanted from the start. This was based on what they were reading and hearing in the media, and from observing the experiences of friends, family and colleagues.

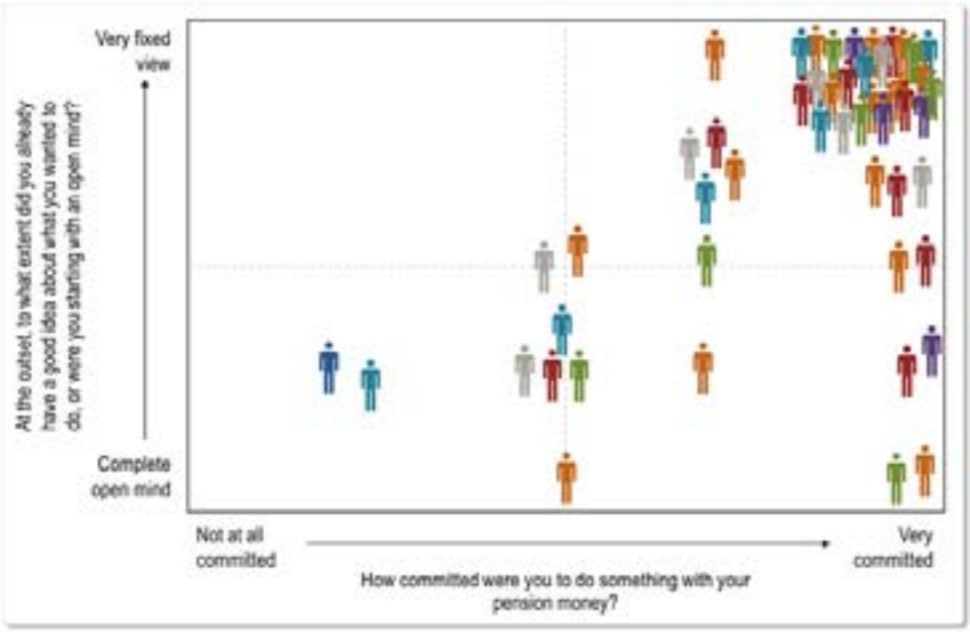
> *"I actually went out for a meal with family and friends, and my sister in law said 'Oh, I'm going to cash in my pension in', and then we sort of got into a chat and I said 'ooh, that's quite an idea.' So, when I got home, I got my paperwork that they send you, my yearly statements. And from that I made the phone calls."*
>
> **Female (55-59), £31k-£75k pot, full withdrawal**
>
> Source: Consumer research commissioned by the FCA, see Annex 3.

4.47 Most perceived the decision as a simple 'no brainer'. As a result, they were very set on the decided path and felt that they would need a very strong intervention to make them think twice about what they were doing (Figure 28).

78 Two large insurers and two SIPP and Asset Manager representing 23% of drawdown sales during the period Q4 2015-Q3 2016.

79 The New Retirement Market: Challenges and Opportunities, May 2017: https://www.abi.org.uk/globalassets/files/publications/public/lts/abi_bro3598_retirement_market_v7.pdfmel4.pdf.

Figure 28: Most consumers who accessed their pots were very committed to accessing their pot and were not open to changing their mind



Source: Consumer research commissioned by the FCA, see Annex 3

4.48 While there was a good awareness of Pension Wise, those making early withdrawal decisions rarely felt the need to use the service.

> *"You got documentation through telling you about Pension Wise and so on . . . I already knew what I wanted to do, so I never bothered."*
>
> **Female (55-59), £10k-£30k pot, partial withdrawal**
>
> Source: Consumer research commissioned by the FCA, see Annex 3.

4.49 In addition, Which? consumer research found that consumer awareness of product features is low, including understanding of products they own. Consumers regard themselves as knowledgeable about their decumulation options, however, detailed knowledge and understanding of products is less evident (Figure 29):

- of six true or false statements about annuities, only 31% of consumers not taking advice were able to identify five or six correct answers
- of six true or false statements about drawdown, only 49% of consumers not taking advice were able to identify five or six correct answers

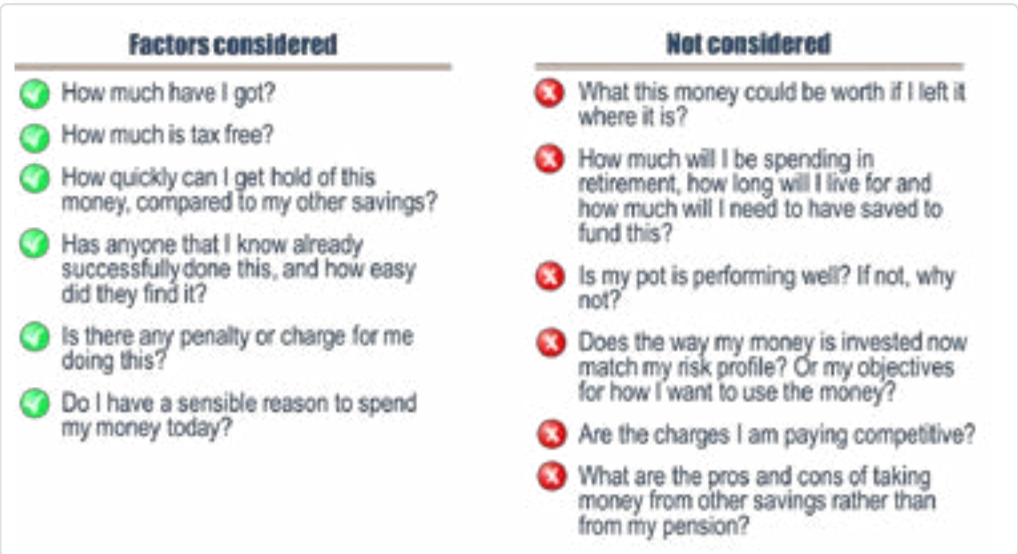
Figure 29: Consumer awareness and understanding of product features is low (both taking and not taking advice)

True of false statements	% correct	
	Annuity	Drawdown
1. You might pay income tax on the money you receive	93%	94%
2. You can switch provider if you are not happy	43%	45%
3. You can change the amount you receive	42%	65%
4. You have to purchase from your existing pension provider	89%	76%
5. It's possible you'll receive less than you paid in	81%	74%
6. It's possible to run out of money before you die	43%	80%

Source: Consumer research commissioned by Which?

4.50 Our consumer research found that most respondents under 65 years old spent very little time considering their decision to access their pension. Around half of the 55 to 59 year old consumers said they spent half a day or less researching their decision. The factors consumers considered focused very much on process-related matters such as how much money was in their pension, how much they could access tax-free, how quickly they could access it, what the process involved and whether there were any penalties or charges to pay. Rarely was their focus on the future and any of the broader issues around how much they would need to live off, how long they might live for and what their pension might be worth if they had left it untouched for a few more years (Figure 30).

Figure 30: Very few factors were considered in any depth



Source: Consumer research commissioned by the FCA, see Annex 3.

4.51 Only a small number of consumers who took part in our research said that they had looked at their provider's website. Those that did had often already made up their mind on what they wanted to do. They typically spent half an hour or less on the site, and were mostly looking to validate what they had read elsewhere. Most reported that their interactions with their provider's website had little or no impact on their final decision.

4.52 Further, consumers typically had negative views on any provider interventions to try to get them to think more deeply about their options. Since the pension freedoms were announced in the 2014 budget we have made several changes to our rules to protect consumers, for example rules requiring firms to give consumers appropriate risk warnings. The intention of these rules is to engage consumers when they have decided (in principle) how to access their pension savings, to help them understand the implications of the decision they are making.

4.53 We found that consumers largely did not welcome warnings given over the phone or requirements to fill out a form to receive further information. Most consumers saw these as a hurdle as they had already made up their mind. Many felt that such interventions were simply 'back covering' exercises by providers, and some perceived this to be a delaying tactic by the provider rather than an additional layer of protection for their benefit. Only a very small number felt that it was a useful way to get them to stop and think twice about their actions.

> *"I sort of said what I wanted to do and then had half an hour of formal cautions and warnings that they have to give out… 'you realise that taking money out now means you may not have enough to live on later, blah, blah, blah'. It was such a long, long pile of stuff that they read out. I almost lost the will to live… I did find it slightly obstructive in terms of the process, you know, just to access my money."*
>
> Male (55-59), £31k-£75k pot, partial withdrawal
>
> Source: Consumer research commissioned by the FCA, see Annex 3.

4.54 Which? consumer research also found that the 'second line of defence' and government-provided information and guidance has a limited impact on decision making. It was claimed by 72% of consumers that it had no effect on them with only 9% claiming it affected their decision. 65% claimed to be aware of the Pensions Advisory Service and know what they do, however, overall there was relatively low importance placed on them for advice and information. There is not a great deal of reliance on such sites, with the information being useful but in the overall mix alongside other sources of information.

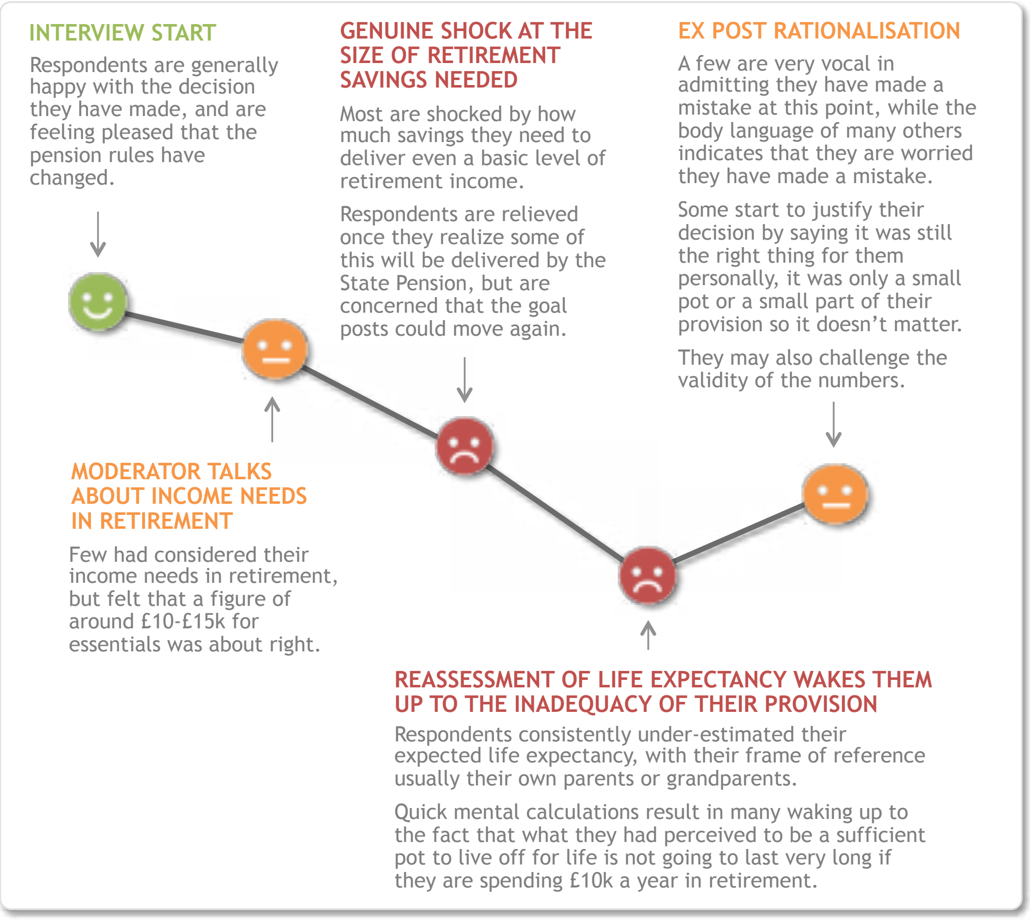
4.55 As part of our research, consumers were presented with some basic information about longevity and the amount of money they may need to live off in retirement, to help them assess whether they had made the right choice about accessing their savings. Many respondents had a 'penny drop' moment during these discussions, which made them start to question whether they had acted too hastily, without understanding all the facts (Figure 31).[80] Two particular pieces of information were particularly impactful:

- information about life expectancy helped respondents re-evaluate their assumptions about how long pension money needs to last

80 It is important to note that the research was constructed to avoid leading consumers. However, through the types of questions asked, the stimulus used (e.g. rules of thumb, useful information) and the responses of others, consumers became increasingly aware of new 'facts' and potential 'mistakes' they might have made as sessions progressed.

- information on average income requirements in retirement, and the size of the savings pot needed to deliver this, made them question whether spending their money today (often on discretionary items) really would make no difference to them in the future

Figure 31: Many consumers had a 'penny drop' moment



Source: Consumer research commissioned by the FCA, see Annex 3

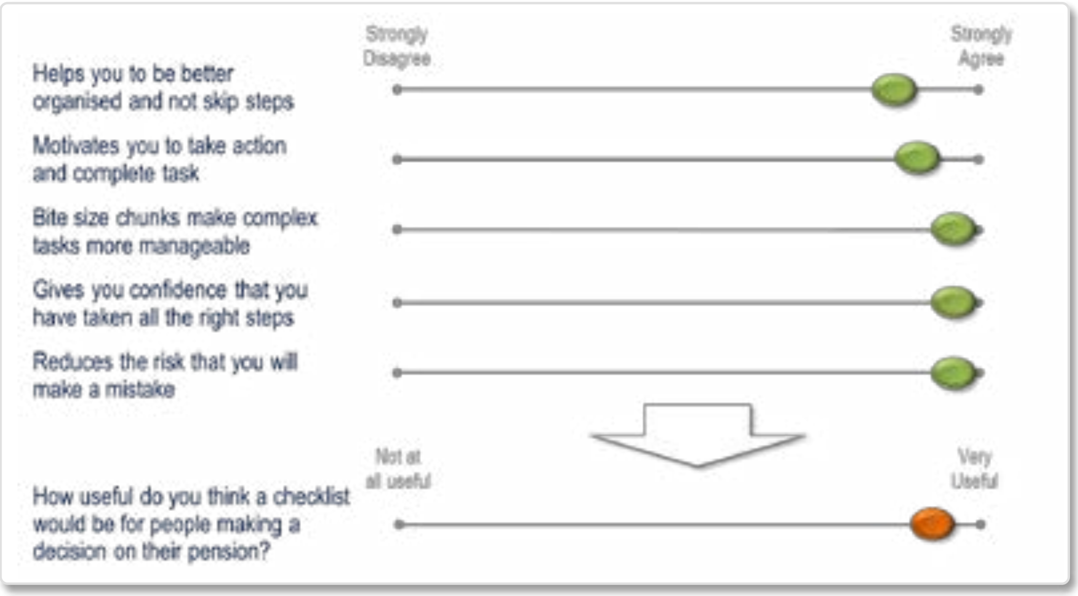
> *"I've had a lot of lightbulb moments! I'll go home tonight thinking, oh dear me! I think it's in the back of your mind, why would I not have left it? And I took the lot! I'm looking at it from that perspective now, why didn't I just leave it? I just thought it wouldn't be worth anything. Isn't that about me burying my head and not really realising the situation? If I'd have known, yes, I would've made different decisions."*
>
> Female (55-59), £31k-£75k pot, full withdrawal

> *"Maybe after what we've heard I think I've been a bit blinkered. That's what I'm thinking now. Have I been too blinkered, too set on a certain path?"*
>
> Female (55-59), £10k-£30k pot, partial withdrawal

Source: Consumer research commissioned by the FCA, see Annex 3.

4.56 As part of our research, we also explored whether checklists could help improve consumer decision making. Consumers strongly agreed that having a checklist would be helpful (Figure 32) and agreed that there should be a single checklist that is used by everyone in the industry. Consumers could clearly see how a simple list of questions could improve their decision making and the vast majority agreed that this idea was worth pursuing further.

Figure 32: Consumers thought that checklists coud be a useful planning tool



Source: Consumer research commissioned by the FCA, see Annex 3.

4.57 Overall, around half of the full withdrawal consumers that took part in our research said that they might have followed a different path as a result of seeing our examples.[81] While our research shows the potential benefits of providing consumers with basic information and checklists, we note that this information was helpful, in part, because it was delivered and explained face-to-face. It may not be as effective if delivered, for example, as part of providers' written communications.

81 Consumer research commissioned by the FCA, Annex 3.

5 Firm business models and strategies

Chapter summary

Providers have changed their business models and product propositions after the pension freedoms. Many insurers have refocused their strategies on drawdown instead of annuities. This has been because of the falling demand for annuities, the Solvency II capital requirements and the low interest rate environment. Most large providers have introduced simpler drawdown for their mass market customers, including to allow customers to use the new freedoms, for example, by accessing their tax-free cash early.

We assessed how these changes have affected competition. We found:

- **Weak competition for drawdown customers who do not take advice.** Most insurers do not have to compete for new customers as they can cross-sell to existing customers: 94% of ABI members' non-advised drawdown sales were to existing customers compared with 35% of advised sales. Some of the SIPP providers and asset managers have attracted new customers who do not take advice, but these customers tend to have larger pot sizes and are likely to be more engaged.

- **Provider exit may weaken competition in the annuity market over time.** Some providers, mainly the large insurers, have withdrawn from the open annuity market and some insurers have merged. Some consolidation was to be expected due to the lower demand and is not yet a sign of weakened competition, though there is a risk of competition weakening over time. We will continue to monitor this market.

Overall, consumer inertia means that large insurers can easily retain their existing accumulation customers at decumulation. Smaller providers find it difficult to attract those customers to enter and expand in the market. The lack of competitive pressure on the large insurers may result in higher charges, poorer quality products and/or less innovation in the longer term.

We identified the same barriers to entry and expansion as before pension freedoms. Firms find it difficult to attract customers and achieve scale because they need to have a trusted brand, and consumers are not engaged. Further, firms thought that the pace of policy change has deterred new entry. The pensions landscape is seen as complex and some firms thought that uncertainty over the future direction of policy was undermining investment in innovation.

5.1 In this chapter we assess how providers have changed their business models in response to pension freedoms and implications for competition. We expect to see further changes to firm strategies and propositions as firms continue to respond to pension freedoms.

Issues we sought to explore

5.2 In our Terms of reference we said that pension freedoms presented providers with opportunities to develop business models, for example through offering a wider range of products. It also opened up possibilities for firms to enter or expand in the market. However, we identified potential risks to improved competition and consumer outcomes. We were specifically concerned that:

- falling annuity sales may lead to further consolidation in the annuity market or providers adapting their business models in other ways that are detrimental to competition and consumer outcomes

- some firms may decide to develop business models that allow them to access and use customer relationships in ways that may also reduce the levels of consumer shopping around and switching

- lower rates of customer switching may act as a barrier to new firms that want to enter the market or smaller firms that want to expand in the market

5.3 Because of the scope of our review (see Chapter 2), we focus on firms that serve consumers who do not take advice. However, to assess firm strategies and the effectiveness of competition, we also consider the role of advised consumers. For example, shopping around by advised consumers can drive firms to offer better products or pricing to compete for these customers. These improvements can also improve outcomes for consumers who do not take advice and switch, where these consumers buy the same products. This may even be the case where advised and non-advised consumers buy similar but different products. There will be limited benefit, however, where firms can price discriminate between the different groups, or where these consumers buy very different products.

5.4 In the sections that follow, we consider:

- how providers have changed their business models

- the effects on competition in the non-advised segment of the market

- barriers to entry and expansion

Firm business models after the pension freedoms

5.5 We considered the changes made by those five groups of providers that, according to our data, serve consumers who do not take advice (see Chapter 3).

5.6 As set out in Chapters 3 and 4, the pension freedoms have fundamentally changed how and when consumers access their DC pension pots. We held discussions with providers to understand how they have adapted to those changes. We also gathered views on how the industry was responding more generally. We combined these with information obtained through our Supervisory work.

5.7 Table 8 sets out the main features of business models of the different groups of providers. The key themes we found across most providers were:

- To date, providers have focused on meeting the basic requirements of pension freedoms, such as altering product propositions to enable customers to access freedoms and staffing up call centres. This includes developing tools and calculators and improving their online interfaces to help consumers make better decisions.

- Many insurers are re-focusing their business models from selling annuities to drawdown. Although there has been a sharp decline in annuity sales, providers also cited other factors influencing the shift away from annuities, namely low interest rates and higher capital requirements from Solvency II.

- Many insurers have developed simplified drawdown for their mass market consumers not taking advice, allowing them to move from accumulation into decumulation to access their tax-free cash. These typically have a limited fund range.

- Most insurers restrict non-advised drawdown to their existing accumulation customers or steer customers seeking drawdown towards advice.[82] As a result, few providers offer non-advised drawdown to new customers but we know of at least three insurers and four SIPPs and Asset Managers doing so.

- As set out in Chapter 6, we did not find much innovation in terms of products aimed at mass market consumers not taking advice. However, firms are developing some new propositions.

Table 8: Main provider business models after the pension freedoms

Providers	Changes to business models
1. Large insurers (7)	• Offer both annuities and drawdown. Before the reforms, strategies focused on selling annuities, but providers have been re-focusing on drawdown. Four firms have stopped selling annuities on the open market but continue to serve existing customers. • These providers have large books of existing accumulation providers. Providers told us they focus on amassing customers in accumulation (e.g. through workplace schemes or buying-up back-books) and retaining them through to decumulation. Most providers did not mention specific strategies aimed at attracting new decumulation customers. • Some providers said they are uncomfortable with selling drawdown without advice and attempt to limit such sales, for example by introducing limits on pot sizes. Only three out of seven providers offer non-advised drawdown to new customers.
2. Medium-sized insurers with accumulation customers (4)	• Offer both annuities and drawdown. Similar to the large insurers, they are shifting their strategies from annuities to drawdown, with one provider withdrawing from the open annuity market. • Have existing accumulation customers to cross-sell to.
3. Medium-sized insurers without accumulation customers (2)	• Primarily sell annuities but also want to start expanding into the drawdown market. • Do not have existing accumulation customers, so the main distribution channels are referral arrangements, independent financial advisers and those consumers not taking advice who do shop around.

82 However, data reported by these providers show that a small proportion of their drawdown sales do go to non-advised customers.

Providers	Changes to business models
4. Closed-book insurers (3)	• Only offer annuities and only sell to existing accumulation customers, often to fulfil their contractual obligations. Some have set up referral arrangements with other insurers. • Since the freedoms these providers have focused on improving communications and engagement with their customers.
5. SIPP providers/asset managers that sell non-advised drawdown (4)	• Only offer drawdown (both advised and non-advised). • These providers generally view their customer base as more engaged and savvy than the average mass market consumer. • Focused on developing a strong digital experience and some have also introduced guidance for their mass market consumers not taking advice. • Providers are trying to improve brand awareness to acquire customers not taking advice from the open market. However they find it difficult as consumers tend to stay with their existing provider. Providers are therefore also focusing on retaining and acquiring accumulation customers, by growing their presence in workplace schemes or buying accumulation back-books.

Source: FCA analysis .

5.8 Several respondents to our Terms of reference stated that they expected business models to continue evolving over time, and we expect further developments to these as pension freedoms are further embedded.

5.9 Across all groups[83], providers also told us that they were keen to begin, or continue, expanding into other aspects of their business. Providers described taking the following approaches to vertical integration:

- buying up back-books to secure a flow of existing accumulation customers
- acquiring advisory firms or expanding into low-cost digital advice
- developing in-house advice capabilities
- platforms, including improving digital interfaces for retail customers and advisers
- fund management - some firms have been active in the fund management space for many years but others are considering entering

Effects on competition

5.10 We welcome that providers have made changes to help their customers navigate and access the pension freedoms. Many consumers can more easily access the wider range of decumulation options given the changes providers have made to their products.

5.11 However, as set out in Chapter 4 and our Terms of reference, we are concerned that consumers may have become more inert and are not switching providers. This may lead to less competitive pressure on firms, particularly the large insurers, as providers

83 Except for closed book insurers.

may not feel the threat of customers switching or shopping around for a better deal. Similarly, where consumers are not engaged, firms will not face strong incentives to innovate. Consumer inertia can also create barriers to entry and expansion if providers cannot attract enough customers to reach sufficient scale. Over time, ineffective competition may lead to higher charges, less innovation and lower quality.

5.12 In this section we specifically look at how consumer inertia may have affected:

- the ability of providers to retain their existing mass market customers who do not take advice at decumulation
- the ability of providers to attract new customers from other providers
- the prospect of entry of new providers

5.13 We consider the developments in the non-advised drawdown and annuity markets separately, though we note that most of the main providers operate in both markets.

Retention of drawdown customers who do not take advice

5.14 In Chapter 4, we concluded that consumers do not shop around for drawdown. We wanted to assess how this consumer inertia has affected providers' ability to retain existing customers and attract new customers, and whether this leads to weakened competitive pressure. We were specifically interested in retention of mass market customers not taking advice.

5.15 Overall, our evidence (as set out in Chapter 4 and this chapter) suggests there is weak competition in the non-advised drawdown market. Non-advised drawdown is sold almost exclusively to existing customers. Providers with an existing customer base mostly cross-sell to their existing customers. Challenger firms find it difficult to access those mass market customers not taking advice.

The largest insurers mainly sell to existing customers

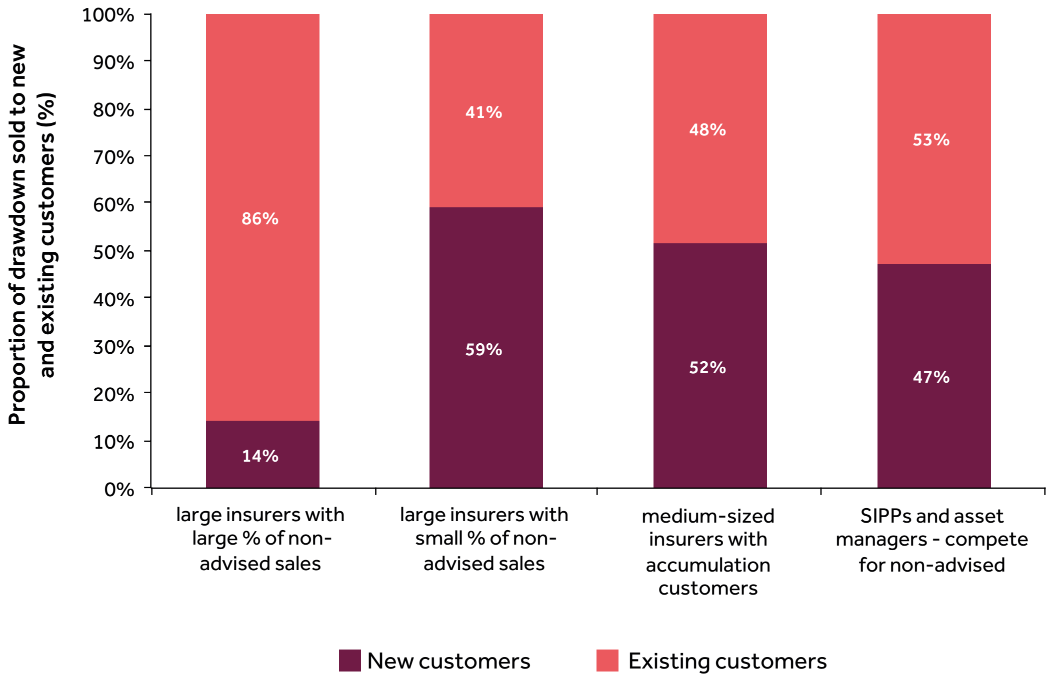
5.16 Specifically, our quarterly retirement income market data on drawdown sales (Figure 33) show that a large proportion of providers' sales are to existing customers, especially the large insurers.[84] The three insurers with the largest share of non-advised drawdown sales sell 86% of their drawdown to existing customers.[85] This compares to a range of 41%-53% for the other provider groups. Although the other insurers and SIPPs and asset managers do attract new customers, we believe that these new customers are mostly advised. Across all groups except SIPPs/asset managers, over half of sales go to advised customers.

84 When looking at sales among the large insurers, our data show that three out of seven providers have a far greater share of non-advised drawdown sales than the other four firms. We present our findings by further splitting the large insurers into two groups that reflect this difference, where relevant.

85 Our data do not allow us to distinguish between which specific products were bought within drawdown. For the purposes of this analysis, we have assumed non-advised drawdown sales are sales of simpler drawdown that providers have recently introduced. Advised sales are assumed to be sales of more traditional, complex drawdown, however there may be overlap between the two.

Figure 33: Drawdown sales after the pension freedoms, October 2015 - September 2016

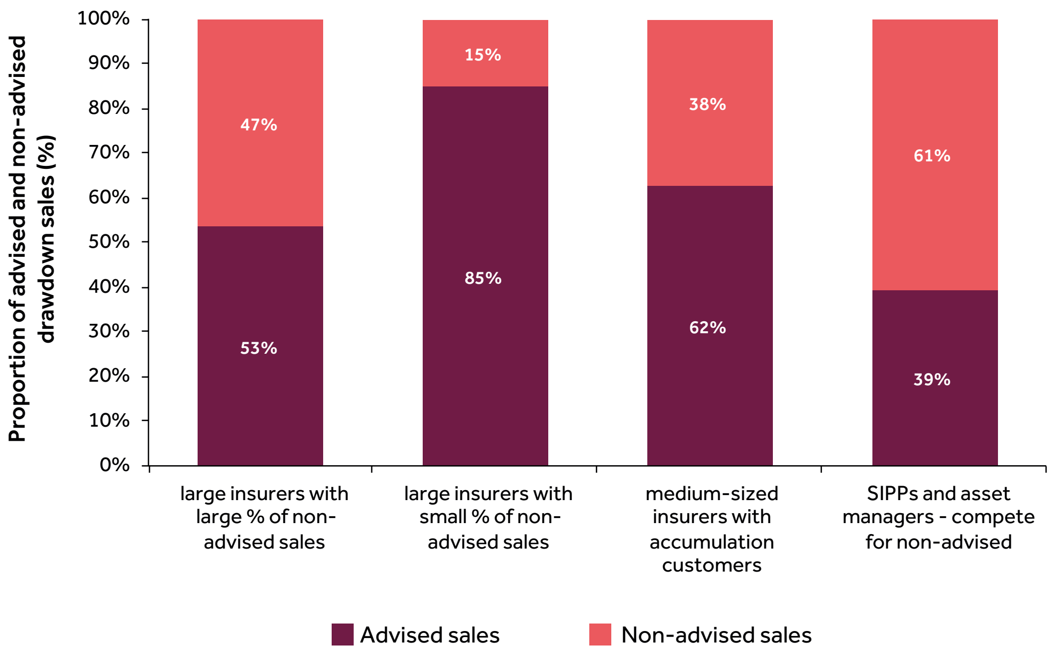
i) Drawdown sales to new and existing customers (both advised and non-advised)



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

Note: We do not report drawdown sales from medium-sized insurers without accumulation customers because they mainly sell annuities.

ii) Drawdown sales to advised and non-advised customers (both new and existing)

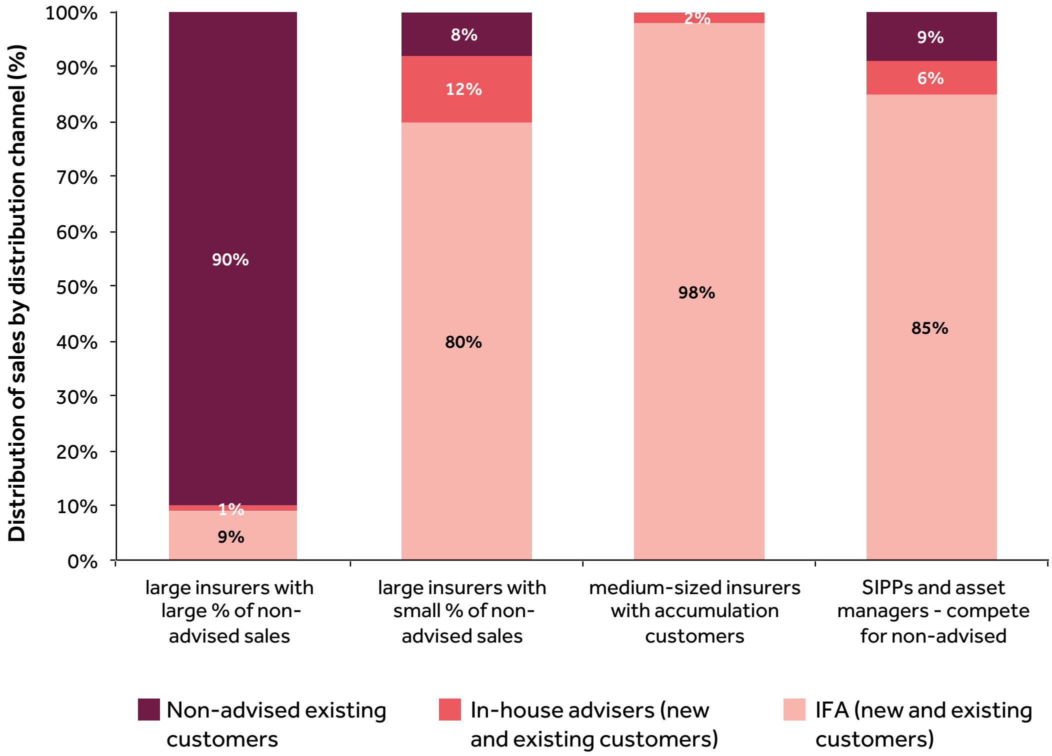


Source: FCA analysis of FCA retirement income market data collected from 56 providers.

Note: We do not report drawdown sales from medium-sized insurers without accumulation customers because they mainly sell annuities.

5.17 Our distribution channel data confirm that most non-advised sales come from existing customers. For the largest insurers this channel accounts for 90% of drawdown sales. Figure 34 shows that firms did not report any non-advised drawdown sales to new customers, which suggests that all of non-advised drawdown sales are to existing customers. However, comparing these data to our quarterly data we consider that some firms may not have reported some of their non-advised open market sales, particularly some of the SIPPs and asset Managers.[86] Some of the insurers with smaller market shares may have also under-reported their non-advised sales.

Figure 34: Distribution of drawdown sales by type of firms and distribution channel, April 2015 - April 2016



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

Note: We do not report sales through the other channels we analysed because there were no sales through these channels. We have excluded one firm from the large insurers with large % of non-advised sales because they have not reported any sales in our distribution channel charges data request. We do not report drawdown sales from medium-sized insurers without accumulation customers because they mainly sell annuities.

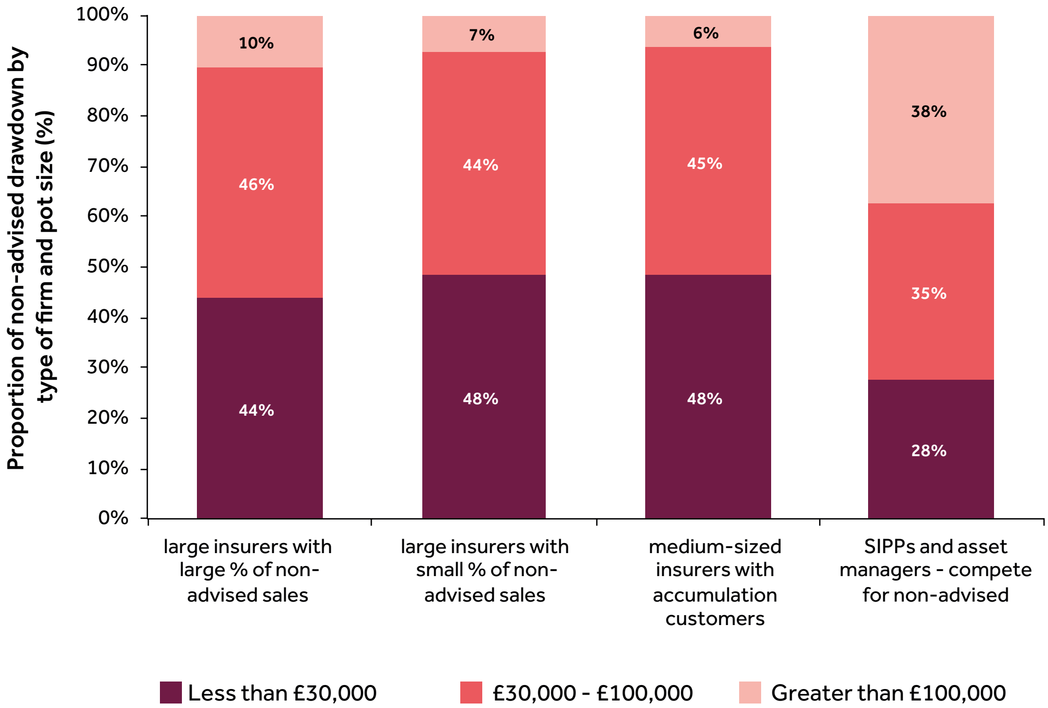
86 We do not expect the misreported sales to have a major impact on our findings. Qualitative evidence from providers did not suggest significant non-advised channels being used other than existing customers.

5.18 ABI data support these findings. The ABI data show that the split of providers' sales to existing and new customers varies markedly by non-advised and advised sales channels.[87] On average, ABI members sold 94% of their non-advised drawdown sales to existing customers. This compares to only 35% for advised sales.

The customers that SIPPs and asset managers attract have larger pots

5.19 Our data show that some SIPPs and asset managers have attracted new customers who have not taken advice. We consider these customers to be more engaged than the average mass market consumer as these providers serve customers with higher value pots. We looked at the distribution of pot sizes across non-advised sales (Figure 35) and found that SIPPs and asset managers tend to serve consumers with higher pot sizes than insurers. Across all groups of insurers, the proportion of sales to pots below £30,000 ranges between 44% - 48%, whereas for SIPPs and asset Managers it is 28%. SIPPs and asset managers also have a significantly higher share of customers with pot sizes over £100,000, whereas these comprise a relatively small proportion of sales for insurers.

Figure 35: Proportion of non-advised drawdown by pot size and type of firm, October 2015 - Septembe 2016



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

Note: We do not report data collected from medium-sized insurers without accumulation customers because they mostly sell annuities.

87 The ABI collects data from its members on a quarterly basis. Of these, 21 firm groups are included in both the ABI and RIMD. When compared with the RIMD sample, the ABI data cover 90% of annuity sales and over 70% of drawdown sales recorded in RIMD. Therefore, we consider that the ABI sample is a representative sample to base our analysis upon. For more detail, see Annex 2.

Stakeholders suggest it is difficult to attract new customers who do not take advice

5.20 The views we heard from stakeholders supported our analysis, in particular:

- Many of the large insurers we spoke to said that their strategy is focused on retaining existing mass market customers, and several of the biggest providers said that they did not have a strategy in place for attracting new mass market customers not taking advice.

- One respondent to our Terms of reference thought that the ability to cross-sell to existing accumulation customers reduced the ability of new entrants to compete for decumulation customers.

- One medium-sized SIPP provider with an established presence in the market and a strategy to acquire mass market drawdown consumers not taking advice told us that the point of decumulation is often a trigger for consumers to consider changing pension provider. However, they noted that it can be difficult to win customers as there is a tendency for customers to default into their current provider's drawdown plan. This confirms what we learnt from discussions with providers and is likely one of the drivers behind many providers not offering non-advised drawdown in the open market.

5.21 These data suggest that advised consumers are more likely to switch to a new provider than consumers who do not take advice. Switching by advised consumers may put competitive pressure on offerings to consumers not taking advice if advised and non-advised consumers buy the same product or products with similar features and if providers cannot charge them different prices. In the next stage of the study, we will collect further information on how this may affect consumer outcomes and the potential benefits of switching in the market. We discuss this further in Chapter 7.

5.22 The limited evidence we have seen to date suggests that providers may be developing different product propositions for advised and non-advised consumers. Our conversations with providers suggest these differences are on fund ranges and occasionally pricing. In addition, stakeholders have suggested that competition in advised drawdown focuses on aspects of quality such as fund ranges, and less so on charges. This would suggest that positive effects from competition in the advised market may not spill-over into the non-advised market as these have limited fund ranges to begin with.

There is little switching amongst consumers who do not take advice

5.23 We conclude that shopping around and switching for non-advised drawdown is currently almost non-existent. Therefore it is unlikely that providers are subject to competitive pressure to offer consumers good deals. We acknowledge that switching may not be worthwhile for all consumers, but we are concerned that consumers are not engaged, so remaining with their existing provider is unlikely to be an informed choice.

Prospect of entry of new providers in the near future is low

5.24 We also considered whether there is a prospect of more providers entering the non-advised drawdown market in the near future to put competitive pressure on the existing large providers. There are many potential entrants, primarily providers that offer drawdown on a predominantly advised basis. These providers may find it relatively easy to develop product propositions for the non-advised segment of the market. The larger providers among them may also benefit from having an established brand, which we found to be important for many consumers.

5.25 However, we do not consider such entry likely in the near future due to lack of consumer engagement and switching. Further, firms may not be interested in entering this market because of the relatively small pot sizes of the current cohort of consumers and the limited revenue opportunities these present. As a result, we do not consider that the threat of entry puts significant competitive pressure on providers that are currently in the market. Chapter 8 discusses potential remedies we are considering to improve competition in this market.

Competition and customer retention in the annuity market

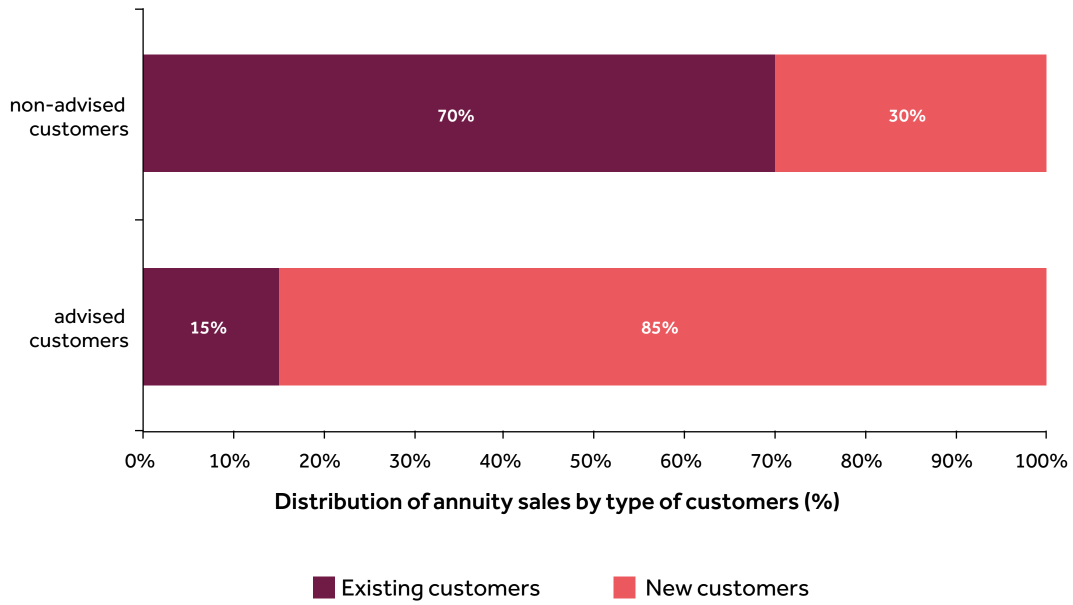
5.26 In our Retirement income market study, we found evidence of low shopping around and switching in the annuity market. We found this to result in weak competition and consumers missing out on better deals by not shopping around.

5.27 In summary, we found that now that pension freedoms have come into effect there is still low switching in this market which is likely to put low competitive pressure on providers. Large insurers hold two thirds of the standard annuities market and distribute mainly to their existing customers. In addition, several providers, mainly the large insurers, have withdrawn from the open annuity market. However, this began before the pension freedoms. In July 2017 seven firms still offered annuities on the open market. While annuity rates have decreased, the trend predates pension freedoms and is not necessarily indicative of weakening competition. Nevertheless, consumers may still be losing out by not shopping around and switching to better deals.

Providers can retain most non-advised annuity customers

5.28 ABI data show that switching amongst consumers buying non-advised annuities is low. ABI member firms sell 70% of their non-advised annuities to existing customers compared to only 15% on an advised basis (Figure 36).

Figure 36: Distribution of annuity sales by type of customers, April 2015 - March 2017

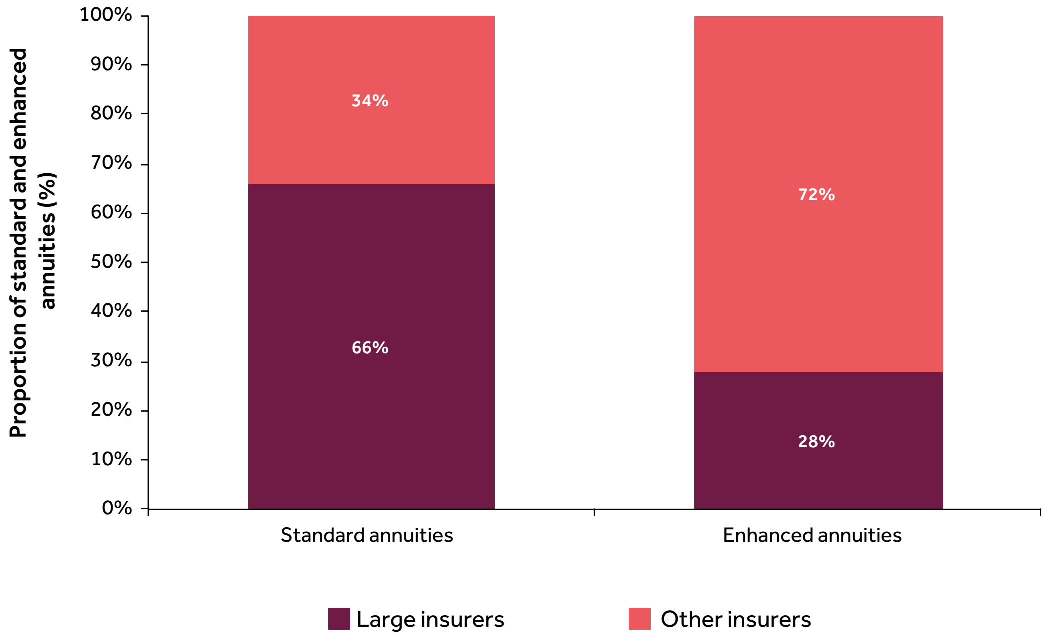


Source: FCA analysis of ABI data, April 2015 – March 2017.

Note: The sample of ABI members does not include all providers in the retirement income market but is representative of most annuity sales. See Annex 2 for more details.

5.29 We found, from our data and conversations with firms, that large insurers and medium-sized insurers with accumulation customers tend to focus much more on standard annuities than enhanced. In Figure 37 below, we show standard and enhanced annuity sales grouped by large insurers and other insurers. The latter includes medium-sized insurers, both with and without accumulation customers, and closed book insurers. For standard annuities[88], large insurers capture most of the market. For enhanced annuities however, most sales go to other insurers. We do not provide a further breakdown of how these sales are distributed among other insurers for confidentiality reasons, but we note that medium-sized insurers without existing customers have a significant proportion of enhanced annuity sales.[89]

Figure 37: Distribution of standard and enhanced annuities, October 2015 - September 2016



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

Note: We do not report data collected on SIPPs and Asset Managers because they mostly sell drawdown. Other insurers include medium-sized insurers (with and without accumulation customers) and closed book insurers. We combine them for confidentiality reasons.

88 These providers have been grouped together for confidentiality reasons.

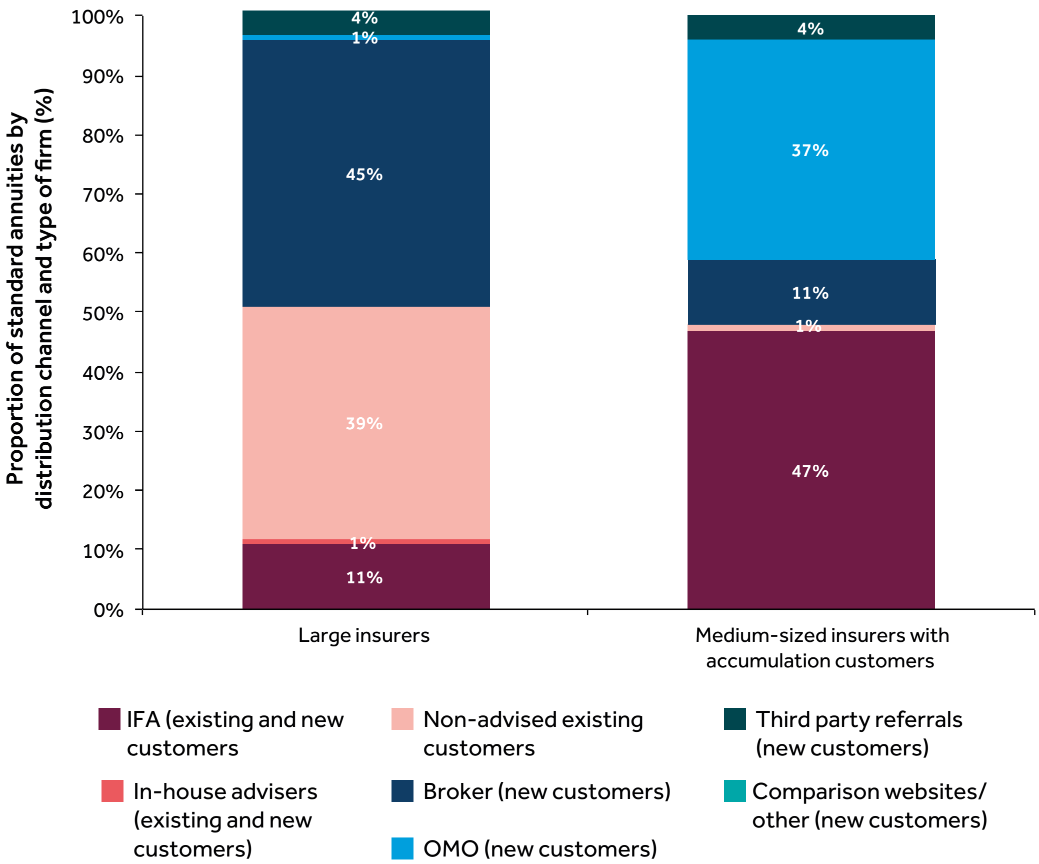
89 We do not report the specific data due to confidentiality issues.

Enhanced annuities are more likely to be sold to advised consumers than standard annuities

5.30 We looked at the distribution by enhanced and standard annuities separately and found that both advised and non-advised enhanced annuities are more likely to be sold to new customers compared with standard annuities.[90] These data also show that consumers purchasing enhanced annuities are much more likely to take advice than consumers buying standard annuities.

5.31 As Figure 38 below shows, for standard annuities there appears to be a mix of distribution channels used among the various provider groups. The large insurers sell 39% of sales to existing accumulation customers and 45% of sales through brokers. However, two firms in the group of large insurers skew the distribution of sales as they predominantly sell through brokers. When these two firms are excluded, the group of large insurers predominantly sell standard annuities to existing consumers. The other insurers do manage to attract new mass market non-advised customers through the open market, price comparison websites and referrals. Medium-sized insurers without accumulation customers acquire most of their sales through IFAs and have a significant proportion coming in through referrals and price comparison websites.[91]

Figure 38: Distribution of standard annuity sales by firm group and distibution channel, April 2015 - April 2016



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

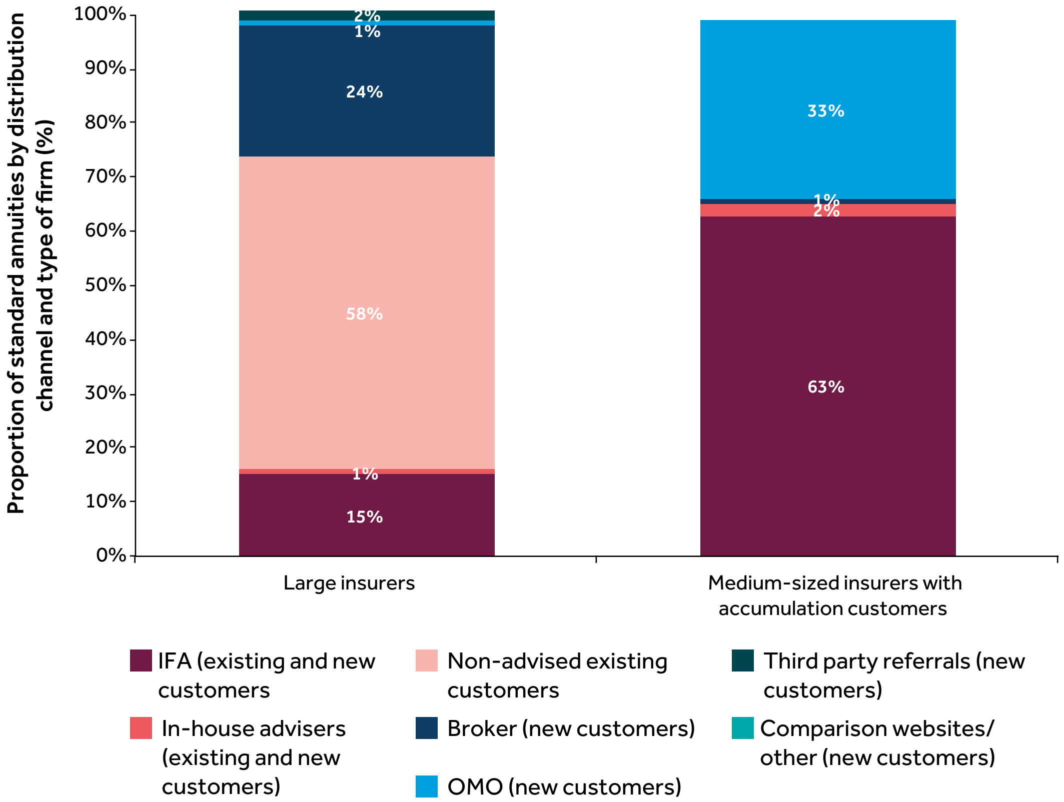
Note: A minority of firms within the large insurer group use brokers but this channel accounts for a significant share of their total sales.

90 We do not present these data due to the limited number of time periods available.

91 Due to confidentiality reasons we have not presented data for insurers without existing accumulation customers.

5.32 For enhanced annuities, large insurers get a significant proportion of sales from existing customers and brokers. Medium-sized insurers without accumulation customers show a similar pattern in distribution[92] as do the medium-sized insurers with accumulation customers, with most sales coming through IFAs. Referrals and price comparison websites are also important channels for medium-sized insurers without accumulation customers.

Figure 39: Distribution of enhanced annuity sales by firm group, April 2015 - April 2016



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

Note: (i) We do not report data collected on SIPPs/ Asset Managers because they mostly sell drawdown. (ii) We asked firms to split their sales by impaired and enhanced annuities. A number of firms were not able to do split their sales so we aggregated impaired and enhanced annuities. (iii) A minority of firms within the large insurer group use brokers but this channel accounts for a significant share of their total sales.

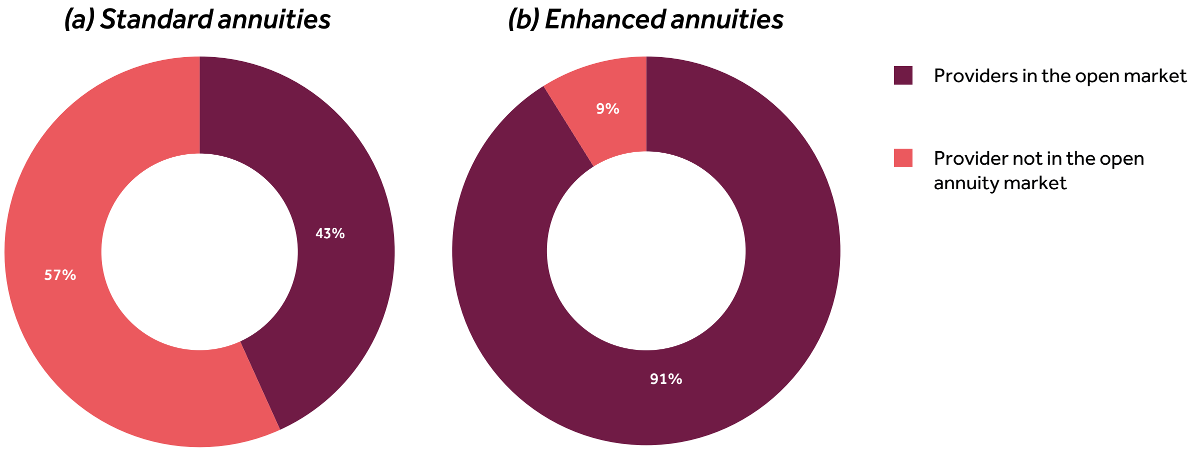
Providers are pulling out of the open annuity market

5.33 Several respondents to our Terms of reference raised concerns about competition in the annuity sector. They told us that competition may have reduced because some firms have merged and others have exited the open annuity market.

5.34 However, we note that although some providers have left the open market, many remain but only serve their existing customers. As of July 2017 there are currently 15 firms with substantial sales in the annuity market, but only seven of these serve the open market. Amongst the providers in the open market, five provide standard annuities and six provide enhanced annuities. Many providers do not sell enhanced annuities so those providers that do are more likely to participate in the open market to attract consumers looking for better terms. As such nearly all enhanced annuity sales are to providers in the open market, as shown in Figure 40. This compares to less than half of standard annuity sales going to providers in the open market.

92 Due to confidentiality reasons we have not presented data for medium-sized insurers without accumulation customers.

Figure 40: Proportion of standard and enhanced annuity sales by providers in the open annuity market, July - September 2016



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

Annuity rates have been declining but this predates pension freedoms

5.35 We looked at the level and spread of standard (single, level, without guarantee) annuity rates for annuities worth £50,000 over the March 2013 to February 2017 period.

5.36 We found that the average open annuity rate has steadily declined over the period. However the decline started before pension freedoms were introduced (Figure 41). We consider that factors other than consolidation, such as falling demand and changes to the macroeconomic environment, may have contributed to the decline. According to market commentators, movements in the average rate after June 2016 can be attributed to the pressure on gilt yields following the result of the vote to leave the European Union (EU) and the subsequent expansionary monetary policy.[93] Many of these alternative factors may have also contributed to further consolidation and exit.

5.37 We also found that the spread in providers' open annuity rates has reduced. However the range in providers' rates we observed in February 2017 (£2,283-£2,554 or £271 difference) is only slightly lower than the range we observed in March 2013 (£2,474-£2,795 or £321 difference), when we found that open annuity market customers were obtaining good value for money in the Retirement income market study.

93 Moneyfacts UK Personal Pension Trends Treasury Report, Q3 2016

Figure 41: The average level and difference in rates for standard annuities (single life, level without guarantee) March 2013 - Feb 2017

Source: FCA analysis of data from Moneyfacts UK Personal Pension Trends Treasury Report based on 8 providers. These 8 providers account for 80% of annuity sales in the open market (Q3 RIMD) and include the three largest providers.

5.38 On balance, we are still concerned about weak competition in the annuity market as levels of consumer engagement and shopping around remain low. However, we have recently published our Policy paper PS17/12 on final rules for an annuity information prompt proposed in our Retirement income market study. This is designed to show the difference between the provider's own quote and the highest guaranteed quote available to the consumer on the open market.[94] This information prompt should encourage consumers to shop around and switch providers where it is good for them to do so. Firms affected by these changes will need to ensure compliance from 1 March 2018. We expect the introduction of this prompt to lead to better offers from providers and therefore we are not proposing further interventions but will continue to monitor the market.

Distribution charges for non-advised annuities

5.39 We sought views on the potential consumer harm caused by commission payments for non-advised annuity sales through our Consultation paper CP15/30. This focused on concerns that the commission payment could be so high that it would be cheaper for the consumer to take regulated advice.

5.40 In our Policy paper PS16/12, after considering the feedback we received to our consultation, we outlined our intention to gather more evidence on the market and the issues. As part of our Distribution charges data request we gathered evidence from a sample of firms in the market and found that, in very few cases and for only certain pot sizes, the cost of purchasing an annuity without advice could potentially be the same or more than purchasing through regulated advice. For all but one provider, data suggest that the number of customers affected is very small and only across certain pot sizes. As this does not appear to be a widespread issue in the market we are not taking any further action at this point.

94 The information prompt was developed through consumer behavioural research which informed both the format and content of the disclosure, with the research showing a 27 percentage point increase in the number of participants that went on to compare products from different providers.

5.41 We recognise some respondents to CP15/30 argued that we should ban commission for non-advised annuity sales. However we expect our annuity information prompt to have an impact on how consumers buy annuities. The information is designed to increase attention towards the cost of purchasing an annuity, and this includes distribution costs, such as commission payments, associated with the sale. As such we do not consider it appropriate to propose additional policy options at this stage. However, we will consider how competition develops in the annuity market following the introduction of the information prompt before considering further policy options.

Barriers to entry and expansion

5.42 We found several factors that can act as a barrier to entry and also make it difficult for smaller existing providers to expand in the market. Respondents to our Terms of reference referred to the following:

- **Scale.** Providers said there are relatively high fixed costs to serve customers in this market, for example IT infrastructure costs. To make entry profitable providers need a critical mass of customers to build up scale and compete effectively.

- **Brand.** New entrants are likely to struggle to grow if they do not have a strong established brand.

- **Limited shopping around and switching by consumers.** Providers said the challenge of gaining a critical mass of consumers deters new business models from emerging and makes it difficult for providers to enter or expand. Some providers said that the pension freedoms have made customer acquisition more difficult due to decreased consumer engagement. However, others suggested that pension freedoms themselves had not increased the extent to which low consumer engagement poses a barrier.

- **The volume of regulation and regulatory uncertainty.** Providers and trade bodies thought the level of policy and regulatory changes deterred potential entrants as well as innovation. Some firms claimed that they had redirected investment intended for innovation as they expected it to be undermined by an increasing regulatory burden.

- **For annuities specifically, holding enough capital and accessing the expertise to price longevity insurance products are also barriers.** Solvency II requirements and longevity of consumers can, among other factors, make providing annuity products less profitable. With lower demand for annuities there is concern that it will be difficult to achieve effective risk pooling with smaller customer bases. One respondent suggested that the fall in annuity rates over 2016 reduced the potential for profit margin and may therefore deter new entrants in the annuity market.

5.43 Other barriers were identified, although these were not necessarily increasing because of the pension freedoms but rather due to the general uncertainty in the sector. For example the uncertain policy direction of future governments and the macro-economic impact of the UK's decision to leave the European Union were cited.

5.44 We are not proposing specific interventions to reduce barriers to entry and expansion. However, we note that remedies to increase switching and shopping around will help to reduce barriers to entry and expansion as well.

6 Innovation

Chapter summary

The pension freedoms present an opportunity for innovation in this market to enable consumers to make more effective choices and to ensure that products meet consumer needs.

We found that some innovation has occurred in the following areas:

- firms have developed tools and calculators to help consumers understand their options and implications of those options
- firms have developed simpler drawdown propositions
- a few firms have developed new types of products, such as hybrids that combine flexibility with guarantees but these have seen limited take-up and have mainly been sold through advised channels
- firms are increasingly considering their direct-to-consumer propositions

However, so far innovation has been limited to these areas. As consumer DC pots grow in size and importance as a source of income, there will be an increasing need for products for mass market consumers who do not seek advice. Consumers also need tools and technology that can help them assess their own needs and assess and compare products.

Stakeholders identified several barriers to innovation, including the pace of political change, lack of demand from consumers for new innovative products, overall consumer inertia and lack of engagement and small pot sizes of the current cohort of retirees.

We expect to see more product and technological innovation over the next few years as providers continue to develop their product propositions in response to the pension freedoms. Incentives for providers to innovate should increase as DC pots grow in size. However, it is important that any innovative products developed by firms address genuine consumer needs and are appropriate for the target market.

We are inviting further views on:

- the areas where innovation is needed
- what we can do to facilitate innovation that is in the interests of consumers
- what consumer protection issues may arise from such innovations

6.1 In this chapter we assess the level of innovation. We focus specifically on innovations aimed at meeting the needs of mass market consumers who do not seek advice.

Why is innovation important in this market?

6.2 Innovation can help consumers make better decisions and ensure products better meet their needs. Weak competition may result in firms not having strong incentives to develop the products, tools and guidance that consumers need to successfully take advantage of pension freedoms.

6.3 In our previous work we set out what specific product and supply side innovation we expected to see.[95] In terms of product innovation, we expected to see capital and income guarantee products, cash based products, and blended solutions. In terms of supply chain innovation, we expected to see more direct-to-consumer propositions and digital engagement, including digital retirement advice.

6.4 In our Terms of reference we noted that we had seen limited product innovation to date. This appeared to be due to challenges of simplifying existing products and firms ensuring they were operational after pension freedoms.

6.5 We assessed the level of innovation that has occurred to date. We also gathered feedback from stakeholders on gaps or barriers.

6.6 We considered the following types of innovation:

- innovations that aim to help consumers make better decisions
- innovative products to meet mass market consumer needs
- innovations in ways that products are distributed to consumers

Innovations aimed at helping consumers navigate their options and make better decisions

6.7 Innovative tools that harness the power of new technology may help consumers, particularly those not taking advice, understand their options after the pension freedoms and make better informed decisions. Such tools may help consumers assess their own needs, assess and compare products offered by different providers and understand how best to use their products. This can help drive more effective competition between providers.

6.8 We found that providers have developed some tools to help consumers understand their options. These include:

- **Tools that help consumers understand their options.** Several providers have created educational websites that include a range of tools and short videos to help consumers understand their options. Some providers have a retirement investment framework to help consumers understand the impact of saving and withdrawing on their funds.
- **Tools that help compare products and the implications of their decisions,** such as checklists and calculators. For example, we saw some examples of calculators that

95 Retirement Income market Study Final Report, 2015: www.fca.org.uk/publications/market-studies/retirement-income-market-study

help consumers assess the level of tax they will pay if they choose to fully withdraw their pot.

- **Simplified advice propositions, such as robo-advice.** We have seen new advised propositions targeted at mass market consumers that have mainly taken the form of robo-advice. These online automated advice models can potentially deliver advice in a more cost-efficient way. For consumers with smaller pot sizes this can be an affordable way of getting financial advice on their retirement decision.

6.9 These tools are in addition to the range of support and guidance on offer by independent bodies such as Pension Wise, the Pensions Advisory Service and Money Advice Service.

There are currently some gaps in the provision of tools but new tools are emerging

6.10 However, gaps in provision remain. In particular, stakeholders thought that lack of drawdown comparison tools restricts consumers' ability to shop around for those products. Challenges around the introduction of comparison tools for income drawdown are discussed in Chapter 7. We also consider that there might be a need for tools that help consumers compare different product types, such as annuities and drawdown.

6.11 We expect tools that are more effective at engaging customers to emerge in future. Insurers are increasingly using technology, and investment in this part of the UK's Fintech industry is growing quickly. This is an area the FCA will closely monitor through its ongoing work, including project Innovate.

6.12 Our Retirement income market study and the Financial Advice Market Review (FAMR) recommended the development of a pension dashboard - a consumer-friendly digital interface which enables consumers to view all of their lifetime pension savings. Most stakeholders agreed that a dashboard could benefit both consumers and competition in this market.

Many consumers have made only limited use of existing tools

6.13 In our consumer research we asked consumers to assess providers' websites and tools. As set out in Chapter 4 and Annex 3, our research found that:

- There has been limited take up of providers' online tools and support. Fewer than one in five respondents who accessed their DC pension said they had used their pension provider's online tools as a source of information or guidance.[96]

- Most respondents were using their provider's site in a very transactional way (e.g. to get a valuation) and typically spent half an hour or less on the site. They were mostly validating what they had read elsewhere. Most said that the providers' website had very little impact on their final decision.

6.14 This would indicate that such tools are not currently being used to their full potential. These tools might need to be considered alongside Pension Wise guidance so that consumers have a basic understanding of their options. In response to our Terms of reference some insurers suggested pension guidance would help consumers to shop around.

96 16% of those who accessed a pension pot. Consumer research carried out by GfK for the FCA. At Retirement Consumer research – exploring changes in the retirement landscape, December 2014: www.fca.org.uk/publications/market-studies/retirement-income-market-study

6.15 In addition, consumers with poor digital literacy or limited internet access may not be able to access these online tools. We found that many providers recognised the need for consumers to interact with their telephony service. In our Business plan[97], we highlighted consumer vulnerability and access to financial services as one of our priorities for 2017/18. The industry should continue to consider how to best support these consumers.

Product innovation

6.16 Pension freedoms have opened up possibilities for providers to enter or expand in the retirement income market, for example, by developing innovative products that address consumer needs.

6.17 There has been some progress, such as simpler drawdown for the mass market and a few 'hybrid' products (mainly aimed at advised consumers). However, we have not seen development of new products combining flexibility and guarantees for the mass market consumers who do not take advice.

6.18 Stakeholders specifically referred to products with a deferred annuity element. A deferred annuity is a type of annuity that allows a customer to delay when they draw an income in retirement. They told us that the introduction of the deferred annuity would move the market closer to the OECD Roadmap for the Good Design of DC Pension Plans. The Roadmap recommends partial annuitisation of accumulated assets, combining deferred life annuities that protect against running out of savings in later life with drawdown facilities that provide flexibility and choice early on.[98]

6.19 Yet proposals for a deferred annuity market have failed to take off. The main challenge appears to be one of low demand, due to difficulties in overcoming consumers' present biases. Another deterrent is that many consumers currently have relatively small pots. One provider thought there is a general lack of innovation in areas addressing longevity risk because the interest rate environment and Solvency II mean the cost of guaranteeing income is expensive. They believed the focus of annuity providers has been on launching drawdown solutions rather than innovating in annuities.

6.20 We think that the incentives for innovating will increase over time as consumer DC pots grow in size. We heard that some providers are already developing new product propositions. Again, we want to give the market further time to develop before we take any action.

6.21 Innovative products can create conduct risks, particularly where they are complex or sold to consumers who do not understand them and/or who are not their target audience. We will continue working with providers on these new propositions to ensure they are fit for purpose and target market, particularly through Project Innovate.

97 Business Plan 2017/18, April 2017: www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf.
98 Pensions Outlook 2016, 2016: http://www.oecd.org/pensions/Highlights-2016-Pensions-Outlook.pdf

6.22 Our findings on the level of innovation are consistent with those set out by the DWP as part of its recent decision not to allow NEST to enter the retirement income market at this time.[99] More specifically, the DWP concluded that:

- As more and more people will be relying on their DC pension pots to fund their retirement, it is important that these people can access appropriate, low cost retirement products. However, most people contributing to pensions through automatic enrolment currently have small pots and will not need such products.
- The evidence is still emerging about which products will be suitable, but many believe that a combination of flexibility, a regular income and longevity protection are most likely to be needed.
- While providers are introducing new products, the Government had received limited evidence that such suitable hybrid products aimed at mass market were available or in development at this stage. Providers said that development of new products would 'progress at pace' now that providers have had time to respond to the reforms.

6.23 We agree with the DWP that this decision should be kept under active review. If the market fails to deliver innovative products for mass market consumers, there may be scope for NEST to fill an important gap.

Many drawdown providers have simplified their propositions to make them more appropriate for non-advised consumer but more could be done

6.24 Several stakeholders told us that mass market consumers who do not take advice may find drawdown complex and need support. In response to our Terms of reference:

- One large provider told us that they had conducted consumer research and found that many customers would be challenged to pick their own investment solutions.
- Another provider told us that many drawdown customers will be exposed to too much risk and others will be gaining poor returns in cash deposit funds. They also told us that more than 90% of non-advised customers will select a ready-made investment strategy as opposed to selecting their own investments.

6.25 In addition, existing research suggests that many consumers are not well placed to make investment decisions at retirement, are 'daunted' by the array of choices on offer and want providers to offer them a default drawdown investment choice or to be guided into certain investments.[100] We also recognise that in the future a large proportion of consumers will have previously been auto-enrolled in the default fund of their workplace pension scheme. It is likely that these customers would not have made any significant investment related decisions before investing in drawdown. They will probably be confronted with complex investment decisions if they move into an income drawdown product. They may find that they only have limited ability or experience to engage with their drawdown investments.

99 NEST: Evolving for the future. Government Response, 2017: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596995/government-response-nest-evolving-for-the-future.pdf

100 The Pensions Policy Institute (2015), Transition to Retirement – Supporting DC Members with Defaults and Choices up to, into, and through Retirement: Qualitative Research with those Approaching Retirement. This consumer research was conducted with 55-70 year olds for whom defined contribution pensions savings made up most of their private pension savings.

6.26 Some providers have developed simplified drawdown to better serve customers who are unable to choose their own investments. These products typically have a limited fund range which customers can choose from according to their needs, though some providers also recommended investment pathways depending on consumer needs.

6.27 We reviewed the investment options and associated income drawdown investment guidance available for five of the six providers (three large insurers and two SIPP providers) with the most new non-advised drawdown sales.[101] We found that:

- One large insurer allows customers to pick from a number of outcomes that they would like their drawdown investments to achieve, such as providing them with an immediate regular income in retirement, growth with no immediate income or the near term purchase of an annuity. Then, based on the customer's selection, the firm presents investment choices designed for the outcome they have chosen.

- One larger insurer has an online portal that offers three investment propositions, one of those allows customers to choose whether or not they are seeking to obtain growth or income through retirement. The insurer then provides a range of growth funds at varying risk levels, and two income funds with varying income profiles. All these funds are actively managed however they are not specifically managed for income drawdown customers.

- One large insurer requires non-advised customers to make active fund choices and restricts customers to a more limited selection of funds than otherwise would be available when using the product with an IFA. Post income drawdown purchase, it provides information to customers on an annual basis. It is also more generally looking at improving communication after the point of purchase.

- One SIPP provider highlights six funds for investing in a drawdown pension for those customers who would only seek to withdraw income from their investments, keeping the underlying investments intact. These investments are not specifically managed for income drawdown customers.

- One SIPP provider offers no specialised fund solutions or guidance for income drawdown customers. It was seeking to introduce a fund that would be low cost and transparent while providing flexibility for customers. However they noted this would be difficult to create.

6.28 In the next stage of the review, we will collect further information on the approaches taken by different providers.

Providers have developed 'all in one' pension propositions

6.29 Providers have developed 'all in one' propositions that allow consumers to both save into a pension for their retirement and draw an income when they are retired.

101 These providers accounted for 60% of non-advised drawdown sales.

6.30 We received mixed responses to our Terms of reference on these propositions. Some stakeholders noted that these propositions may make it more convenient for consumers as they would only need to buy a single pension product. However, this increased convenience could also result in lack of a clear decision point for customers to shop around for products that would allow them to draw an income in retirement. In particular, one respondent said that the introduction of these 'all in one' propositions may damage competition by preventing new entry of firms providing retirement income products.

Innovation in distribution channels used

6.31 In our Retirement income market study we set out that we expected to see new or enhanced distribution propositions, e.g. direct-to-consumer and digital customer engagement.

6.32 We have seen that a number of providers are placing attention on direct-to-consumer and digital channels. They expect growth of direct business fuelled by a gap in advice. Some stakeholders felt there was still opportunity to innovate in the digital space to improve the customer journey. We have also seen a move towards more vertical integration as providers try to capture more of the value chain. We discuss this in more detail in Chapter 5.

Barriers to innovation

6.33 We looked at whether there are any barriers that prevent providers from delivering the innovation that customers need.

Both supply and demand barriers prevent innovation

6.34 There currently appears to be a lack of incentive for providers to innovate due to lack of demand, and the inertia of existing customers. This inertia is primarily down to consumers struggling to understand their retirement options and the range of products on offer. This message has come through strongly from providers and consumer groups at our roundtable and bilateral meetings, and directly from consumers via our consumer research work.

6.35 There are a number of behavioural biases which, combined with low levels of financial literacy and the complexity of decisions, can make it difficult for consumers to assess their needs and the most appropriate products. This means that consumers may not identify the products that would best meet those needs. For example, focus on the present and their desire for flexibility may lead consumers to undervalue the guarantees provided by annuities. We found that several factors motivated consumers to access their savings early as set out in Chapter 4 and our research reports.

6.36 Respondents to our Terms of reference reported that the lack of innovation is because of the market going through a period of significant policy change, leading to uncertainty around future developments. This, and the impact of policy changes and regulation on providers' costs, were cited as reasons firms are reluctant to invest in product development.

7 Complexity of shopping around for income drawdown

Chapter summary

We assessed the complexity of shopping around for drawdown without advice and found several issues:

- Drawdown with the most complex charging structures can have between 9 and 16 different administration charges. Even the simplest charging structures have one to three charges and may be too complex for customers to assess and compare.
- Openly available charging information is not very transparent and is difficult to compare across providers. This is because providers present charging information using differing formats and terminology.
- There are no market wide comparison tools or standardised metrics available to help consumers who do not take advice to compare charges. According to our experimental research, the introduction of a cost metric could make it easier for customers to shop around. Two cost metrics in our experiment significantly helped customers to identify the cheapest drawdown.

We also found that the spread in administration charges across providers suggests consumers might benefit from shopping around. For example, consumers with a £40,000 pot could be losing up to £73-£90 a year. This could amount to up to £1,460-£1,800 over twenty years. At this stage, our assessment did not take into account fund charges. We will do further work to assess the level of potential harm before the final report.

7.1 In this chapter we look at:

- how product complexity may lead to ineffective competition
- whether the complexity or lack of transparency of drawdown charges makes it harder for customers to shop around effectively
- the availability of income drawdown comparator tools or metrics and the barriers that prevent more effective tools being developed

7.2 We considered the complexity of other decisions particularly choosing investment strategies in Chapter 6.

How can product complexity lead to less effective competition?

7.3 For competition to work effectively, drawdown customers need to shop around and find where better offers are available and worthwhile. When customers shop around firms will be more incentivised to improve price and quality of their products in an effort to retain and attract customers. If they do not do so, customers will move to an alternative supplier.

7.4 As set out in Chapter 4, currently many consumers who do not take advice do not shop around and remain with their existing pension provider. At the moment this is largely because these consumers have bought drawdown just to access tax-free cash. Another factor that may prevent customers from shopping around and switching is that products are complex and difficult to compare.

7.5 Consumers may find it difficult to identify and compare the cost of drawdown. Drawdown products may need to have detailed pricing structures to reflect the complexity of the product features it offers. However, some of this complexity may be unnecessary and may be used by providers to make it more difficult for consumers to assess and compare products across the market.

7.6 We are concerned that:

- A number of stakeholders have told us that charging structures are often overly complex or not clearly explained and vary considerably between different providers. This is likely to have made it very difficult for customers to assess and compare drawdown on price.
- There is a lack of comparator tools or metrics available that help compare products. Without these, customers may find it too difficult and time-consuming to shop around effectively.

The complexity and transparency of charging structures

7.7 Drawdown is difficult to compare if providers have adopted complex charging structures, or only offer limited transparency of them.

7.8 Respondents to our Terms of reference told us that charge complexity is an important issue in the non-advised drawdown sector. One consumer body thought that the current array of drawdown charges is confusing. They said income drawdown fees and charges are difficult to understand, and most consumers find it difficult or impossible to even find charging information. One medium-sized insurer noted that the complexity of charges means that drawdown cannot easily be compared on a 'like for like' basis. Another smaller provider more generally said that the transparency of charges needs to be improved.

7.9 We found that drawdown products have four main charges (see Table 9): administration charges, drawdown administration charges, fund management charges and adviser charges.

Table 9: Types of income drawdown charges

Income drawdown charge type	Charge is for:	Examples of these charges
Personal pension administration charge	Provision of a personal pension product	• product charges • platform custody charges • pension establishment charges • charges for transferring assets into or out of the pension
Drawdown administration charges	Provision of an income drawdown facility	• drawdown charges • drawdown setup charges • charges for drawing an income
Fund management charges	Investments made in drawdown	• management charges • registration, audit and legal fees • charges for distribution • other charges including fund performance fees, transaction costs, interest on borrowing, costs associated with derivative fees, entry fees, exit fees and soft commission
Adviser charges	Provision of advice	• deductions to pay advisors for both initial and on-going advice

Source: FCA analysis .

7.10 In this section we focus on the complexity of administration charges (both personal pension and drawdown administration charges). This is because these charges are common across all consumers who buy drawdown products. We do not look at adviser charges because our review focuses on outcomes for consumers who do not take advice. We do not consider fund management charges at this stage, as these will depend on individual fund choices. We will assess the level and variation in fund charges ahead of the final report.

7.11 Our analysis set out in the remainder of this section shows that:

- administration charging structures are currently complex
- there is a lack of transparency in openly available charging information
- administration charge levels are highly spread across different providers indicating there may be some gains from shopping around

Administration charges are complex

7.12 We reviewed the charging information[102] on providers' websites for ten of the most popular drawdown products[103] available on a non-advised basis amongst six[104] of the seven providers with the most non-advised drawdown sales.[105]

102 Including key features documents, charge sheet information and summaries of charging information displayed on providers' websites.
103 All with more than £250m of assets under management at 31st October 2015 (according to our drawdown charges data).
104 One provider was excluded because it did not have a product with more than £250m of AUM at 31st October 2015
105 Specifically, we took those providers with the most non-advised drawdown sales (Retirement Income Market Data October 2015 –September 2016). We then selected those providers' drawdown with more than £250m of AUM at 31st October 2015 (according to our drawdown charges data) and removed those products that we identified were only available on an advised basis.

7.13 These providers accounted for around 70%[106] of new non-advised drawdown sales, 50%[107] of all new drawdown sales and 40%[108] of total assets under management in the sector. All except one of these providers[109] sold at least 30% of drawdown policies on a non-advised basis.

7.14 For each product we looked at:

- the total number of charges for each product
- the complexity of the core charges – those that customers would most likely incur when using the product
- the form of core charges and how they differ between products – including how they are tiered and to what extent they are levied in pounds or as a percentage of funds invested
- the extent to which charges depend on consumer behaviour or are paid on a set basis

7.15 We found that the complexity of administration charging structures varies considerably between products (as shown in Table 10). The products with more complex structures have a greater number of administration charges. Their core charges vary more and a greater proportion depend

106 FCA analysis of FCA retirement income market data collected from 56 providers, October 2015 – September 2016.
107 FCA analysis of FCA retirement income market data collected from 56 providers, October 2015 – September 2016.
108 FCA analysis of FCA retirement income market data collected from 56 providers, October 2015 – September 2016.
109 This provider only derived 15% of its income drawdown sales through non-advised channels.

Table 10: Complexity of income drawdown adminsitration charging structures

	Simpler charging structures	More complex charging structures
Number of charges	1-3 charges (2 charges on average)	9-16 charges (13 charges on average)
Core charges	Yearly service or product charge	Yearly service/ product charges and fees for providing an income drawdown facility
Form of core charges	Predominantly tiered core charges that are levied as a % of fund	Predominantly tiered core charges that are levied as a % of fund
Both £'s and % charges	2 out of 6 products	4 out of 4 products
Proportion of charges contingent vs set	0-50%	56%-93%
Number of products	6	4

Source: FCA analysis.

Notes: One of the five complex products had no fees for providing a drawdown facility.

7.16 Even the simplest charging structures may be too complex to navigate.[110] Despite most products with simpler charging structures having relatively few charges:

- many have tiered core charges or rebates that depend on the fund size or the type of investments made in drawdown
- a minority combine charges levied as a percentage of the funds invested with fixed pound charges

7.17 On balance, these findings suggest that charging structures are complex and may be a barrier to shopping around.

Providers only offer limited transparency of drawdown charges

7.18 Most drawdown customers receive extensive information on the charges they might incur in the Key Features Illustration (KFI) document sent from their existing pension provider at retirement (as part of a Wake-up package of regulatory provided documents). Even though consumers who do not take advice have the option to specifically request a KFI from other providers, this may be too time-consuming to do. Many customers are therefore likely to rely on charging information that is freely available on providers' websites.

7.19 We reviewed how easily customers could find and interpret openly available charging information for the same sample[111] of providers we assessed above. We found that customers may have difficulty interpreting this information because:

- **Terminology is inconsistent.** In particular we found that core administration charges are referred to in a number of different ways in charging information that is openly available on providers' websites. For example, across different providers in our

110 As noted in our work on General Insurance add-ons, even small barriers to accessing information can significantly reduce shopping around.

111 Ie the ten products available on without advice.

sample, yearly administration charges are referred to as: management charges, service and product charges, administration charges, basic administration charges, platform charges, share custody charges or a bespoke charge for a certain provider.

- **Information is not set out in a consistent format.** Depending on the provider, openly available charging information may be set out on a provider's webpage or included in terms & conditions documents, schedule of charges and funds documents or Key Features documents.

7.20 This evidence suggests that it is also difficult for many customers to find and interpret openly available charging information. Providers could set out their charging information more clearly and in a more consistent format using more consistent terminology. This would make it easier for non-advised customers to compare charges.

The spread of income drawdown administration charges

7.21 We looked at the range of administration charges for six products for six out of the seven providers with the most non-advised sales.[112]

7.22 To do this, we used four different customer profiles for how a customer might use drawdown. For one of these profiles a customer moves into drawdown without taking tax-free cash nor any other withdrawals, and leaves the pot invested. For the remaining three profiles a customer takes 25% tax free cash, moves into drawdown, and either withdraws no further income, a regular annual income or two ad-hoc withdrawals a year.

7.23 Across all profiles we found that customers could gain from shopping around for lower administration charges. If consumers with a £40,000 or £75,000 pension pot were not selecting the best value product, we estimate that:

- they could be losing out by up to around £73-£90 or £113-£150 a year respectively
- their losses may amount to up to around £1,460-£1,800 or £2,260-£3,000 respectively over a twenty year period - assuming a customer's pension pot were not to increase or decrease during retirement

7.24 We recognise that our dispersion estimates have several limitations and are only suggestive of high gains from shopping around. In particular, we acknowledge that there may only be a small minority of customers buying high cost drawdown. It may also be possible that customers buying products with higher administration fees are compensated with a better value fund selection. Further, we did not consider all charges consumers pay. We will therefore investigate the size of gains from shopping around in more detail in the final report.

112 These are the same six providers that accounted for around 70% of the non-advised sector.

The availability of comparison tools and cost metrics

7.25 Comparison tools, such as price comparison websites and standardised cost metrics, empower consumers to drive effective competition between providers by helping them access, assess and compare products in the market. Without such tools or metrics, drawdown customers would find it difficult and time consuming to access the necessary information from multiple providers when shopping around for drawdown. Customers would also find it difficult to assess the differences between products and consequently, the potential benefits of shopping around.

7.26 In the final report of the Retirement income market study, we said that it is important to consider how comparability might be promoted for new options which may emerge after the pension freedoms. We also said that this work should be undertaken over the longer term, allowing for product and distribution developments for new products.

7.27 In this section we:

- discuss the recent developments and stakeholder views on whether such tools are needed and what barriers to development exist

- summarise the findings of our experimental consumers research on how alternative ways of communicating total drawdown charges may help consumers shop around for drawdown

Availability of comparison tools

7.28 We found that there are currently no fully functional drawdown comparison tools available that are like those available for annuities. Several stakeholders have also noted the absence of drawdown comparator tools.[113]

7.29 As part of our research we identified a few comparison tools that were openly available to consumers who do not take advice. However these tools offered limited functionality and therefore were unlikely to help consumers shop around for drawdown. More specifically:

- **The existing tools provide limited information about products or cover a small part of the market.** For example, one comparison website we reviewed offered only a qualitative comparison of drawdown, and no comparison of charges. Another website only provided information on periodic charges for a limited selection of providers and assumed a fund management charge of 1%. A number of tools allow customers to understand the benefits and drawbacks of choosing one retirement option over another at a high level. However, there are no tools that actually compare the value for money of a chosen income drawdown product against a chosen annuity.

113 One KFI supplier said that there are some technological solutions available for advisers that provide quotes for drawdown plans that offer a number of different calculations and allow a range of analysis to be carried out. These are not available to consumers, and the firm considered that these were generally too complicated for consumers to use.

- **The existing tools do not provide personalised comparisons based on a customer's retirement needs and pot size.** Personalisation is important as charges will differ depending on the size of the pot and the way the product is used. Such comparisons are available for annuities. For example, the Money Advise Service (MAS) provides a personalised annuity comparison based on a customer's pension pot size, their health details and their partner's personal details, if necessary.

7.30 Overall, stakeholders agreed that comparison tools need to be developed as without them consumers may find shopping around for drawdown too difficult. One medium-sized insurer without a back-book of customers said that until such tools are developed and used, customers will in effect be held captive because they will be unable to compare and shop around for the best deals. Another non-governmental body that provides guidance and information to consumers told us that, at present, an individual would need an Independent Financial Adviser (IFA) to research this information for them. They also noted that consumers often ask them about the best providers to choose from.

7.31 Stakeholders thought that comparison tools have not been introduced to date for two main reasons:

- **Firms do not have the incentives to introduce such tools.** One stakeholder told us that firms have no incentives to develop comparison tools because there is no commission payable on drawdown. As a result, the comparison website business model used in other sectors could not be replicated for drawdown comparison. The firm argued that for this reason a tool will only be introduced if mandated by the FCA.

- **The complexity of drawdown makes it difficult to design such a tool in practice.** One stakeholder said that it would be too expensive or infeasible to develop such a tool given the number and complexity of drawdown propositions.

Table 11: Reasons provided for why it is more difficult to provide quotes for drawdown vs annuities

Reason	Annuities	Drawdown
Income vs. growth	Offer a guaranteed income	Longevity depends on fund performance so projected drawdown scenarios do not reflect what will actually occur
Factors to consider	Comparison is easier because decision mainly driven by rates	Comparison more difficult because decision driven by a range of factors: flexibility of withdrawals, fund choices, availability of guarantees etc.
Options available in the market	A small number of providers so making full market comparison is easier	A large number of providers so making full market comparison is more difficult

Source: FCA analysis.

7.32 These views show that there is both a lack of comparison tools and a strong case for promoting their introduction. They also show that there are a number of barriers that prevent their introduction. We believe that if comparator tools were introduced, shopping around would become significantly less time-consuming and easier. We discuss our proposals in Chapter 8.

Our experimental consumer research into cost metrics

7.33 We commissioned an experiment to explore whether a single cost metric could make shopping around for drawdown easier (Annex 5).

7.34 The experiment tested whether a participant would be more able to identify the cheapest product with or without the assistance of a cost metric (listed in Table 12 below).

Table 12: Cost metrics tested in the experimental research

Cost metric	Definition
Reduction in Yield (%)	The reduction in the annual returns for a pension because of the charges that a customer will be paying.
Pension savings available after costs (£)	The estimated present value of a pension after taking account of the impact of all drawdown charges over the next twenty years.
Total costs over 20 years (£)	The total charges over twenty years that a customer is likely to pay for drawdown.
Average cost per year (£)	The estimated average cost per year in £ charges that a customer is likely to pay on drawdown charges.
Cost rating	A rating summarising all product charges on a scale from cheapest to most expensive.

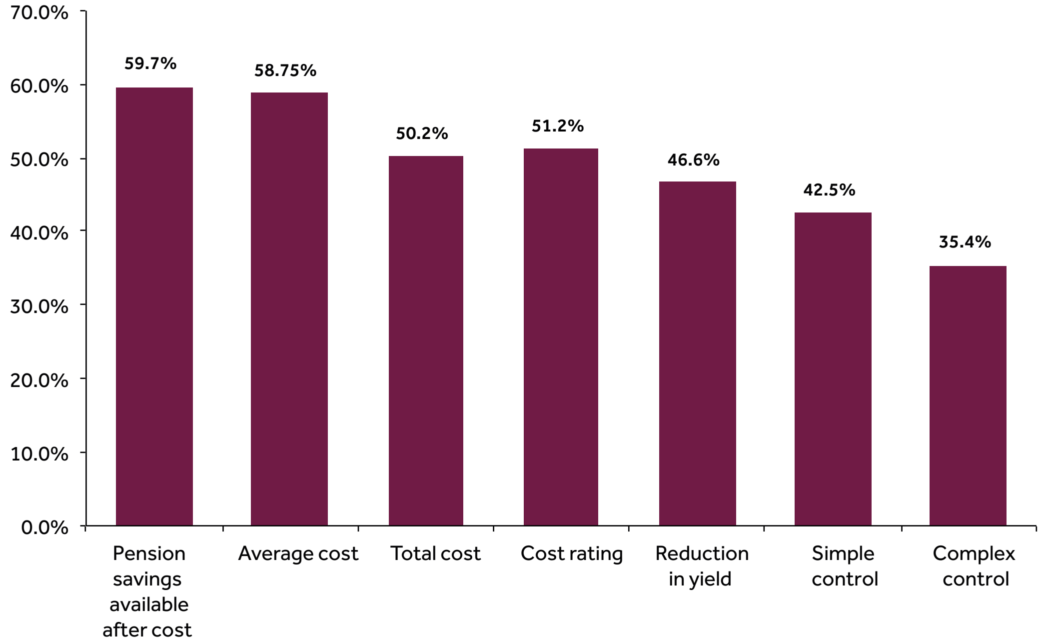
Source: Oxera/CSS, see Annex 5.

7.35 The experiment randomly divided 2,020 participants[114] into seven groups who were shown different versions of a table summarising drawdown features. Each table presented the product characteristics in the same way apart from the cost rating column, which was different for each group. Five of the seven groups were each shown one of the summary cost metrics described in Table 12. These groups were compared to two control groups, a 'simple control' and a 'complex control'. The control groups did not receive a summary cost metric and charges were listed separately.

114 All participants were likely to soon face decisions over their income in retirement.

7.36 The results of the experiment show that the introduction of a cost metric helped participants to identify the cheapest product. Two of the metrics had a statistically significant positive impact on the product choices of participants (as shown in Figure 42.) the 'Pension savings available after cost' metric and the 'Average cost' metric. The other three summary cost metrics ('total cost', 'reduction in yield' and 'cost rating') did not have a statistically significant effect on improving product selection. These findings indicate that some summary metrics may help more consumers shop around for drawdown, though the experimental results do not allow us to estimate how large those effects may be if such a measure was implemented.

Figure 42: Proportion of participants that chose the cheapest drawdown in the experimental set-up



Source: Oxera/CSS.
Note: Based on whole sample of 2,020 participants.

8 Interim findings, potential remedies and next steps

Chapter summary
It is still early days for the market. As DC pots grow in size and increasingly become the main source of private retirement savings for consumers alongside the state pension, we expect to see further evolution in both the products that providers offer and the choices that consumers make.

We have already undertaken a wide range of work to address emerging issues. This includes collecting further data from providers, introducing new rules to inform and protect consumers and clarifying our expectations to firms. We are also working on implementing the recommendations of FAMR. In addition, we have also introduced new requirements on firms to inform consumers about how much they could gain from shopping around and switching provider before they buy an annuity (the information prompt) and we are undertaking trials with firms to improve wake-up packs.

However, we have identified some areas where further early intervention may be needed to put the market on the best footing for the future, and welcome views on these:

- additional protections for consumers who buy drawdown without advice, similar to protections already in place for automatic enrolment
- measures to promote more effective competition for consumers who buy drawdown without taking advice, including
  - enabling consumers to access some of their savings early without having to move into a new drawdown product
  - proposals to make it easier to compare and shop around for drawdown
- tools and services to help consumers make good choices

Getting this right will require cooperation across the Government, regulators, industry and consumer bodies as the measures we are proposing do not fall within our remit alone and some of these issues sit outside our immediate powers.

In respect of providers withdrawing from the open annuity market and innovation, we do not propose action at this time, though we will keep the market under review.

8.1 Because of the potential for consumer harm we have identified in our interim findings, we are considering potential remedies.

8.2 This report invites stakeholder views on those potential remedies. Our final report will set out the final package of proposed remedies and recommendations with a supporting assessment. If any of our proposals require changes to FCA rules or guidance, we will consult on those separately and will publish a cost benefit analysis as part of that consultation.

8.3 This chapter:

- summarises our interim findings
- explains the approach we have taken when developing potential interventions
- sets out our current thinking on potential remedies
- sets out the next steps

Summary of our interim findings

8.4 We found that consumers have welcomed the wider choice brought by the pension freedoms, and large numbers are taking advantage of the new ways to access their pension savings. Providers have made changes to enable consumers to benefit from those freedoms.

8.5 However, we have also identified emerging issues. We found that competition is not working well for those consumers who do not seek advice, and have concerns about whether a competitive market can develop in the future. We also have some concerns that consumers who move into drawdown may struggle with the complexity of the decisions they have to make, particularly where they have not taken advice.

8.6 In summary, our review identified five emerging issues:

- many consumers have fully withdrawn pension pots to move into savings elsewhere, partly driven by lack of trust in pensions (Chapter 4)
- consumers who access their pots early without taking advice typically follow the 'path of least resistance', accepting drawdown from their pension provider without shopping around (Chapters 4 and 5)
- many consumers buy drawdown without taking advice but may struggle with the complexity of the decisions they have to make (Chapters 6 and 7)
- providers are continuing to withdraw from the open annuity market (Chapter 5)
- there is limited innovation for mass market consumers (Chapter 6)

8.7 We discuss these issues and options for addressing them in the following sections.

Questions for feedback

Q1: **Do you agree with our interim findings as set out here and throughout the report? If not, why not? Can you provide any relevant evidence to support your views?**

Our approach to developing potential interventions

8.8 We have developed potential measures for discussion to address the issues that we consider might require us to intervene early. There are also areas that we will continue to observe. We are inviting stakeholder views on these potential measures and welcome alternative suggestions for how these issues could be addressed.

8.9 Our proposals are part of the FCA's broader strategy in the pensions and retirement income sector. As set out in our Business Plan, later this year we will publish a strategy for the pensions sector, setting out our regulatory approach.[115] As part of this, we will reflect on our current work through our supervision, policy and competition projects and consider the impact of related work, such as the Asset Management Market Study, on this sector. Our strategy will also explain how we will work with other regulators and Government.

8.10 We note that our review only looked at a part of the pensions and retirement income sector. However, there are other developments and challenges facing the broader sector (see Chapter 3 and our recently published sector views[116]). Some of these challenges are beyond our remit. For example, the Pensions Regulator (tPR) is aware that a minority of DB workplace pension schemes have sponsors who are in distressed circumstances, which may affect some consumers. Public awareness of DB risks is high, largely as the result of political and media interest in a small number of cases involving household name employers' DB schemes. However, tPR research does show that the majority of DB schemes (85-90% for those schemes in the latest valuation cycle) have sponsoring employers with sufficient financial strength to manage their deficits, and don't have a long term sustainability issues.[117] However, since the start of automatic enrolment in 2012, most new members have joined workplace personal pension schemes. As set out in Chapter 3, DC memberships now exceed those of DB schemes, and challenges in this sector will affect most consumers.

Our approach to developing remedy proposals for this market

8.11 Our proposed remedy package reflects that this market has undergone a significant amount of change and is expected to change further in the near future, but that there are also areas of emerging harm. We want to support consumers in taking advantage of the pension freedoms and encourage the industry to develop innovative solutions to help meet consumers' needs. With any interventions we therefore want to strike the appropriate balance between:

- **Intervening early but also giving the market time to adjust.** We want to intervene early in some areas to put the market on the best footing for the future, and to deal with the emerging consumer protection issues. But we also want to give the market time to respond to the recent changes and ensure that our interventions do not stifle beneficial innovation.

- **Balancing measures aimed at promoting effective competition with consumer protection measures.** Our remedy proposals aim to support and promote the development of a competitive market. This includes making existing information more impactful and effective as well as ensuring consumers have the tools they need to assess their needs and products, and shop around where better offers are

115 Business Plan 2017/18, April 2017: www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf
116 https://www.fca.org.uk/publication/corporate/sector-views-2017.pdf
117 Annual funding statement for defined benefit pension schemes, May 2017: www.thepensionsregulator.gov.uk/docs/db-annual-funding-statement-2017.pdf

available. But we also want to ensure that the appropriate protections are in place for those consumers least able to engage to make sure that they are not at risk of particularly poor outcomes.

8.12 We invite feedback on whether our interventions strike the right balance in these respects.

8.13 With our interventions we want to promote our operational objectives to protect consumers and to promote effective competition in the interests of consumers. Our approach to intervening in this market is aligned with our general regulatory approach set out in our Mission.[118] This underlines our commitment to enhance trust in markets, and to improve how markets work by promoting competition and protecting consumers.

8.14 We will work with the Government, other regulators, industry and other bodies, where appropriate, to deliver the remedies outlined here.

Questions for feedback

Q2: Do you agree with our overall approach to intervening in this market? In particular, do you have views on whether our proposed remedies strike the appropriate balance between:

- **intervening early but also giving the market time to adjust**
- **measures aimed at protecting consumers and promoting more effective competition**

Our current thinking on potential remedies

8.15 We set out below the potential remedies we wish to discuss with stakeholders:

- additional protections for consumers who buy drawdown without advice, similar to protections already in place for automatic enrolment (remedy 1)
- measures to improve competition for consumers who buy drawdown without taking advice, including:
  - proposals to enable consumers to access some of their savings early without having to move the rest into a drawdown product (remedy 2)
  - proposals to make it easier to compare and shop around for drawdown products (remedy 3)
- tools and services to help consumers make good choices, primarily by building on existing initiatives (remedy 4)

118 Our Mission 2017: How we regulate financial services, April 2017: www.fca.org.uk/publication/corporate/our-mission-2017.pdf

8.16 We will also work with the Government, tPR, industry, consumer groups and Pension Wise, the Pensions Advisory Service and their successor body to explore how to safeguard and build trust in pensions. Our remedies should help improve trust by better informing consumers but will not address all of the factors that can influence the public's view of pensions.

8.17 In respect of providers withdrawing from the open annuity market and innovation, we do not propose action at this time, though we will keep the market under review.

Remedy 1: Additional consumer protections for consumers who buy drawdown without advice

8.18 Decisions about how to make the most of a drawdown product are very complex: these include decisions around investment strategy, withdrawal strategy, and – for those who want their pot to last through retirement - also longevity risk (see Chapter 6).

8.19 Poor choices can lead to a range of harm, in particular:

- Consumers may choose an **investment strategy that is unsuitable for their needs,** including their risk tolerance and what they intend to do with their pot in the future. As a result, they may take on excessive levels of investment risk or miss out on investment growth where they have invested in overly cautious assets.

- Consumers may choose **an inappropriate withdrawal strategy** that does not manage the 'sequence-of-returns' risk[119] and 'longevity risk'[120]. As a result, consumers may end up with lower income or run out of their savings sooner than expected.

8.20 We are concerned that many mass market consumers will struggle to make such decisions. We anticipate that these will increasingly be those consumers who will have saved for retirement through workplace automatic enrolment scheme default funds. In particular, these consumers will not have had experience with making their own investment choices for their pension savings. In accumulation, there are protections in place to support consumers who do not or cannot engage with the investment decisions as consumers are offered 'default' funds with capped charges. For example, 99% of NEST members are in the default fund.[121] Further, the value for money provided by schemes is reviewed by Independent Governance Committees for workplace personal pension schemes and trustees for trust-based occupational pension schemes. This scrutiny is not replicated in the decumulation stage.

8.21 We consider it too early to assess whether consumers are making poor choices about the withdrawal strategy. The largest providers have told us that most consumers have not yet started withdrawing regular retirement income from their investments (see Chapter 4). However, we recognise that there is a risk of consumers making poor choices and will keep monitoring consumer behaviour through our collection of quarterly data on withdrawal rates.

119 If consumers make withdrawals from their pot at a time when their fund makes losses, they will have sold assets that would have otherwise delivered growth when the market recovers. Therefore, they may end up with lower income and run out of their savings earlier than if – by temporarily reducing the withdrawal rate – they had given the fund time to recover.

120 If consumers want their pension to last for the rest of their lives, there is a risk of outliving their pension savings if they do not manage their withdrawal rate effectively (or, alternatively, insure their longevity risk).

121 NEST pension scheme annual report and accounts, 2016: https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Corp-SARA_2015_2016,PDF.pdf

8.22 However, we are concerned about the potential of consumers ending up with unsuitable investment strategies. Before deciding on whether an intervention is required in this area, we will gather further evidence on consumer investment choices and the options presented by providers. If we consider the risk of potential harm to be significant, we may put in place remedies.

8.23 We acknowledge that some providers have taken steps to either guide consumers through these decisions or to minimise the risk of consumers making particularly poor choices, for example, by restricting the available fund range (Chapter 6). However, we are concerned that consumers may not be receiving as much support as they need. We would also be concerned if providers steered consumers to options that would not be in their interest.

Options we could pursue

8.24 There are several options we could pursue. In particular, we could consider the case for additional protections, the urgency with which they might be needed and the different options, such as:

- default investment pathways for consumers who do not or cannot engage with their investment decisions
- a charge cap for the default investment pathways
- extending the role of Independent Governance Committees (IGCs) to ensure that decumulation products – including default investment pathways – are appropriate and provide value for money

8.25 We discuss these below. We are seeking views on whether any, or a combination of these protections should be introduced. An important consideration is whether and the extent to which default investment pathways should be mandated by either the Government or the FCA as opposed to voluntarily developed by firms.

8.26 When developing our proposals, we will seek to learn lessons from other countries that have experienced similar issues, such as Australia (Figure 43).

Figure 43: Defaults and longevity insurance in Australia

The Australian pension system, where there is no requirement to annuitise, provides some insights into issues that may emerge in the UK. Australia introduced a system of compulsory employer contribution in 1992. The employer contribution rate has been 9.5% since July 2014, and is planned to increase gradually from 2021 to 12% in 2025. As a result the average size of DC pots at retirement in Australia[122] are larger than the current average in the UK[123] and the issues they are facing provide insights on the issues we may face as DC pots become the main source of private retirement savings in the UK.

The market in Australia bears some similarities to our own with annuities being unpopular and most consumers converting the funds into an income drawdown product called an 'account-based pension'. Income payments are made from this account until it is exhausted. Account-based pensions are not guaranteed to last for a set period of time and there is no hedging of longevity risk. As DC pension pots have increased in size, specific concerns have emerged around the following:

- pension funds held in asset mixes that are not matched to consumers' likely pattern of withdrawals
- pension funds not protecting against longevity risk, with a lack of risk pooling mechanisms such as deferred life annuities
- unsuitable withdrawal rates with some Australians prematurely exhausting their pension savings and some spending too little

To address concerns around inefficient use of pots and people running out of money, the Australian Government is currently consulting on the development of a framework for Comprehensive Income Products for Retirement (CIPR).[124] This would enable trustees to offer a composite retirement income product that combines a regular and stable income stream, longevity risk management and some flexibility to access a lump sum and/or leave a bequest. We will consider the Australian experience as we explore the possibility of introducing default investment pathways for consumers who do not or cannot engage with their investment decisions.

122 https://www.superannuation.asn.au/resources/superannuation-statistics
123 https://www.aegon.co.uk/content/dam/ukpaw/documents/readiness-report-2017.pdf
124 Development of the Framework for Comprehensive Income Products for Retirement, 2016: https://consult.treasury.gov.au/retirement-income-policy-division/comprehensive-income-products-for-retirement/.

Default investment pathways for consumers who do not or cannot engage with their investment decisions

8.27 Once a consumer decides to purchase a drawdown product, or they are moved into drawdown to access their tax-free cash, providers could be required to offer them default pathways based on retirement outcomes chosen by the consumer. Consumers would be free to choose an alternative investment strategy if they wish to do so. Some providers have already implemented similar approaches (see Chapter 6). As set out in the above, similar defaults have proven very popular in accumulation with many consumers remaining in the default fund.

8.28 In practice the default investment pathways could work as follows. This is only intended as an example and we welcome views on whether and how this could best work in practice:

- The firm would be required to offer at least one default pathway. The default pathway would have a high-level objective and set out the strategy it will use to achieve this aim. This could be reflected by its name.
- In terms of its investment strategy and asset allocation, the default pathway(s) would take account of the likely characteristics and needs of the target customer group. If different groups of customers have diverse needs firms might decide that more than one default arrangement is necessary to meet those needs.
- The firm would ask the consumer to express their desired retirement outcome and then offer them the default pathway which most closely matches their retirement choice.
- Firms would actively review the appropriateness of the default investment pathways to ensure they remain appropriate for their customers and their expressed retirement choices.
- They would remind their customers of how their default investment pathway relates to their expressed retirement choice. If their retirement choice changes, they may need to switch into another investment pathway.

8.29 We recognise that the main risk with defining default strategies is that the market is still developing. Further products may emerge, such as hybrids that combine flexible access offered by drawdown with some guarantees (for example, deferred annuities). We do not want our proposals to prevent such innovations. We welcome stakeholder views on how any proposals we take forward could be designed to ensure that they do not discourage innovation.

A charge cap for the default investment pathways

8.30 The default arrangement within pension schemes used by employers to meet their automatic enrolment duty (qualifying scheme) is subject to a cap[125] on the charges which may be borne by scheme members. A cap could also be considered for default

125 The charge cap applies to those scheme members who contribute to a default arrangement of a relevant scheme on or after either 6 April 2015, when the Regulations came into force, or the employer's staging date if later.

investment pathways. Such a cap could help ensure that those consumers who do not engage with their investment decisions are not subject to excessive charges.[126]

Extending the role of IGCs to decumulation products

8.31 IGCs have been put in place to scrutinise value for money offered by workplace accumulation products.[127] Their role could be extended to also scrutinise decumulation products to ensure that decumulation products – including drawdown default investment pathways – are appropriate and offer value for money.

Other options we considered

8.32 In addition to these we considered the merits of other interventions. In particular, we considered introducing an appropriateness test for consumers moving into drawdown without taking advice. Such a test would aim to ensure that consumers have the necessary skills and experience to understand and manage the risks around drawdown, and would restrict distribution of the most complex products to advised consumers only.

8.33 We do not consider it proportionate to pursue this option at this time, but we may consider it in the future. We consider defaults more effective and proportionate. An appropriateness test could remove the choice available to consumers who do not take advice: consumers may be left with a binary choice of buying an annuity or taking cash (where their existing accumulation scheme does not allow them to access their savings). Our proposals on default investment pathways aim to address the emerging issues about the complexity of investment decisions consumers have to make without restricting choice for consumers that wish to make their own investment decisions.

Questions for feedback

Q3: Do you consider we should introduce further consumer protections for consumers who buy drawdown without taking advice to ensure consumers are not at risk of choosing particularly unsuitable investment strategies?

- **Should we explore the possibility of default investment pathways?**
- **Should a charge cap also be considered for default investment pathways?**
- **Should the role of IGCs be extended to decumulation products?**
- **Do you agree with the decision not to pursue the option of introducing an appropriateness test for non-advised drawdown at this stage?**

126 From April 2015, firms providing workplace personal pension schemes used by employers for automatic enrolment have to cap the charges within default funds to 0.75% per year of funds under management. See more here: www.fca.org.uk/news/press-releases/fca-publishes-final-rules-charges-workplace-pension-schemes.

127 www.fca.org.uk/firms/independent-governance-committees

Remedy 2: Enabling consumers to access some of their savings early without having to buy a drawdown product

8.34 Some pension schemes do not have a 'drawdown' feature and require consumers to transfer out of their accumulation product and purchase a new product with a drawdown feature to access their savings.[128] We found that consumers have moved into drawdown with their accumulation provider just to access their tax-free cash before retirement (Chapter 4). At the time, consumers did not consider shopping around and whether the product was suitable or good value because they were not focused on making a decision about the rest of the pot.

8.35 We are concerned that lack of shopping around may result in lack of competitive pressure on the incumbent providers and consumers paying higher charges as a result. Consumers may also have chosen unsuitable investment strategies and incur other forms of harm.[129]

8.36 We consider that the decision to access tax-free cash early should be 'decoupled' from the decision about what to do with the remainder of the pot. This will ensure that consumers only have to make a choice about their retirement income product at a time when they are ready to do so, for example, when they are considering fully or partially retiring.

8.37 Ahead of the final report, we will work with the relevant stakeholders to explore what changes would have to be made to break this link and the potential costs and benefits of doing so. In particular we will work with HMRC, HMT and providers to explore whether either pension scheme providers' contractual terms or the existing legislative framework prevent consumers from accessing part of their savings in their accumulation products without having to move into drawdown. We will also explore with industry whether this will become a legacy issue as providers update their product ranges to reflect the pension freedoms. Finally, we will also gather further information on what harm is currently arising from consumers buying drawdown before they are ready to start accessing those savings.

Questions for feedback

Q4: **Do you believe the market can deliver 'decoupling' without regulatory intervention?**

Remedy 3: Shopping around remedies for drawdown

8.38 Effective competition relies on consumers shopping around across products and across suppliers to choose products that suit their needs and provide value for money.[130] By 'shopping around', we do not necessarily mean switching or even obtaining multiple quotes – but we do mean consumers being aware of other options available in the market. To do so, consumers need to be able to find, understand and compare the relevant information easily. It is also important that consumers find it easy to switch where better offers are available.

128 Some pension products, such as SIPPS, allow drawdown. Consumers with such products could access some of their savings early without having to transfer to a different product. However, many schemes, particularly the older legacy schemes are unlikely to allow consumers to withdraw funds.

129 For example, some consumers may have lost out on their employers' contributions where they accessed a pot the employer was actively contributing to.

130 It is important that consumers choose the product type that is right for them before shopping around. Consumers shopping around for a product that does not meet their needs can still lead to poor outcomes (e.g. consumers shopping around for drawdown where their needs for sustainable and guaranteed income would be better met by an annuity. See Remedy 4.

8.39 Our evidence indicates that there are currently lower levels of shopping around and switching than before the pension freedoms, with particularly low levels among consumers who bought a drawdown product without seeking advice (see Chapters 4 and 5). These consumers tend to remain with their existing accumulation provider. As a result, there is likely to be little competitive pressure on the large accumulation providers to offer better deals to retain their existing customers. Over the longer term, lack of competitive pressure may result in higher charges, lower product quality and less innovation.

8.40 In addition, we found that shopping around for drawdown is very difficult as no market-wide comparison tools are available (Chapter 7). Consumers who want to shop around without seeking advice have to collate the information from the individual providers' websites. In comparison, consumers may find it much easier to shop around for annuities given the comparison tools available in the market. This includes tools offered by brokers and the Money Advice Service's comparison tool.[131]

8.41 We are considering intervening to make it easier to shop around for drawdown. At this stage we are considering two complementary options:

- facilitating the introduction of drawdown comparison tools
- promoting the use of a summary cost metrics

8.42 Each of these could be introduced either through industry initiatives or (subject to consultation and cost benefit analysis) FCA rules or guidance.

A: Introducing drawdown comparison tools

8.43 Comparison tools can drive effective competition between providers by helping consumers more easily access, understand and compare drawdown products offered in the market (Chapter 7). However, the way in which the information is presented can make a crucial difference to how helpful they are.[132]

8.44 Respondents to our Terms of reference largely agreed that comparing drawdown is very complex and that there is a need for comparison tools. However, some respondents questioned whether such tools would be helpful or feasible, because drawdown is very complex to compare.[133] Some were also concerned that comparator tools may encourage customers to focus too much on cost at the expense of other important features, such as investment performance, fund choice or service.

8.45 We acknowledge that there are significant challenges, but we do not consider them insurmountable. Our proposals on summary cost metrics (see below) may help overcome some of these issues.

131 In addition, we already have further work under way to make it easier for consumers to shop around for annuities through the development of our information prompt. This will require providers to show the consumer, where relevant, the difference between their annuity quote and the highest quote available on the open market. We published our roles in May 2017, with providers being required to complex with these from March 2018 (see PS17/12: Implementing information prompts in the annuity market, 2017: http://www.staticwhich.co.uk/documents/pdf/the-role-of-demand-side-remedies-in-driving-effective-competition-456067.pdf

132 The Role of Demand-Side Remedies in Driving Effective Competition: A Review for Which?, 2016: http://www.staticwhich.co.uk/documents/pdf/the-role-of-demand-side-remedies-in-driving-effective-competition-456067.pdf

133 Their main concern was that consumers need to assess a range of features, including charges, fund choices and service quality. They did not think that a simple comparator tool could capture this complexity and would most likely lead to consumers paying excessive attention to costs and charges. They considered that it would be difficult to combine one cost metric with the assessment of other features.

8.46 We are inviting stakeholder views on:

- the prospect of the market introducing a comparison service (or services) similar to those seen in other financial markets, such as general insurance
- whether the Government should explore the possibility of a non-market provider, such as the recently announced new Single Financial Advice Body, providing this service if the prospect of a market solution is low
- what information such a comparison tool should provide, for example generic terms and conditions or individual quotes tailored to consumers' pot sizes and likely product usage

B: Mandating the use of a summary cost metric in customer communications

8.47 Drawdown can have complex charging structures, a wide range of fees and limited transparency (Chapter 7). Even where charges are relatively simple, consumers are likely to struggle to assess the total charges they are likely to pay, given their likely product usage and pot size.

8.48 Our experimental research (Chapter 7 and Annex 5) shows that the use of cost summary metrics can help consumers assess total cost of drawdown. We tested several metrics summarising total cost and found that two metrics had a statistically significant positive impact on consumers choosing the lowest cost product: these were 'pension value after cost' and 'average cost'. This may be because these measures were presented in monetary terms rather than percentage figures or because consumers found them more relevant and easy to understand. While a behavioural experiment, by design, does not allow us to estimate how big these effects could be in the real life, we consider that the improvements we saw were sufficient to invite stakeholder feedback on the benefits and costs of introducing such a metric.[134]

8.49 While we recognise that cost is one of a range of factors that determine value for money, we consider it to be a very important component so it is important that charges are easy to assess and compare across products.

Alternative measures we considered

8.50 We recognise the limits of the effectiveness of disclosure and information based remedies. If these measures prove insufficiently effective over the longer term, we could consider alternative measures to facilitate shopping around, such as:

- exploring whether competitors could be given access to information about those consumers who could gain the most from shopping around in order to facilitate access to other options available in the market
- requiring providers selling their own drawdown products to existing customers to explain to the customer in writing why their drawdown product is at least as suitable as the other options on the market

134 An experimental set-up requires some simplifying departures from reality, which means that they are often not the best way to measure the absolute size of effects of interventions on consumer behaviour in specific real-world situations. We therefore do not use the findings from the experiment set out in Annex 5 to estimate the overall effect such a remedy would have in real life. This is particularly so because, as part of the experiment, consumers had to shop around using a price comparison website that does not exist at the moment. However, experiments are useful because they can reliably predict the presence and relative size of the effects of particular features of interest on consumer behaviour. For more on how experiments can be used in regulation, see Occasional paper 3: How does selling insurance as an add-on affect consumer decisions?, March 2014: www.fca.org.uk/publication/occasional-papers/occasional-paper-3.pdf.

- introducing a 'break point' whereby providers cannot communicate with their existing customers for a specific period (e.g. 28 days) upon notification of their intention to decumulate

8.51 We do not intend to pursue these options at this time. However, we might consider these options further dependent on whether the introduction of drawdown comparison tools leads to more effective competition between providers.

8.52 Respondents to our Terms of reference also proposed, as remedies, the introduction of a switching service similar to the Current Account Switching Service or requiring consumers to shop around for retirement products through the open market. We do not consider it proportionate to pursue these options right now. First, our evidence did not show that the difficulty in switching was the main reason why consumers did not shop around and switch. Other factors, such as consumers wanting to access part of their savings early and lack of engagement, played a larger role in consumers remaining with their existing provider. However, we may explore this option in the future if we find that switching is difficult. Second, requiring consumers to shop around on the open market does not mean that they will necessarily engage and make better choices, particularly if they did not want to shop around and see it as an imposed burden.

Questions for feedback

Q5: Do you consider it proportionate for us to pursue remedies to make it easier for consumers to shop around for drawdown? In particular:

- **Do you consider that the introduction of drawdown comparison tools should be left to the market or is more proactive intervention needed?**
- **What are your views on the benefits and costs of mandating the use of a summary cost metric in customer's communications?**
- **Do you agree with the decision not to pursue the alternative measures at this stage?**

Remedy 4: Helping consumers understand their options after the pension freedoms

8.53 The pension freedoms have made consumer decisions much more complex than ever before. We found that consumers struggle to understand their options and to think through the implications of their decisions (Chapter 4). This, combined with low levels of trust in pensions, may be leading consumers to choose what they perceive to be the easiest option, such as fully withdrawing their pot or remaining with their existing provider, which may not be the best decision for them. We also found that the take-up of support available, such as Pension Wise and the tools provided by providers, has been low.

8.54 As a result, we are concerned that consumers who do not take advice are not accessing the support and information needed to help them decide on which product or option best suits their needs. After deciding on a product or option, consumers are also not shopping around to see whether better offers are available on the market and instead mostly remain with their existing provider. If consumers do not shop around, providers will not have strong incentives to improve the deals on offer.

8.55 Effective communications can help improve consumer choices and decision-making: first, by providing information about products and services in a way that is both engaging and comprehensible; and second, by providing information at the appropriate time and through appropriate channels. While we propose to explore how to make information more effective, we acknowledge the limitations of disclosure, even when well designed. Our work on behavioural economics and smarter communications[135] has shown that information is not always effective at helping consumers make better decisions. Instead, information can overwhelm, confuse, distract or even deter people from making choices. The risk of 'information overload' is particularly high in this market as the choices consumers face are very complex.

8.56 These findings are reinforced by our research for this interim report which shows that consumers do not make use of the available information. While information and help is available from providers, government bodies and others, there has been limited take up and limited effect. Therefore, we do not propose to introduce even more information. Instead, we are asking for stakeholder views on how to make existing information more impactful and effective.

8.57 All this may help improve consumer trust in pensions where mistrust is rooted in consumer lack of understanding of their options and the benefits of keeping their savings in a pension. However, our evidence suggests a range of causes of mistrust, including high profile scandals and the perception that pension rules keep changing for the worse. Such perceptions may be hard to shift.

8.58 At this stage, we have considered some options which we discuss below:

- reviewing the effectiveness of communications sent to consumers before and when they access their pension pots
- reviewing the effectiveness of mechanisms to encourage consumers to make use of the free guidance available from Pension Wise, the Pensions Advisory Service and their successor body
- increasing consumer awareness of enhanced annuities

8.59 We are also looking to build on initiatives such as the Advice Unit and FAMR that are helping to bring innovative and affordable advice tools and models to the mass market. In addition, we are supporting the development of the Pensions Dashboard which has potential to help re-build trust in pensions by making it clearer to customers where and how much their pension savings are.

135 DP 15/5 - Smarter consumer communications, 2015: www.fca.org.uk/publication/discussion/dp15-05-smarter-consumer-communications.pdf

8.60 In their responses to our Terms of reference (Annex 1) stakeholders suggested potential remedies to improve consumer engagement, some of which are reflected in our proposals:

- requiring consumers to seek Pension Wise guidance or requiring providers to refer their customers to Pension Wise[136]
- improving the format and content of wake-up packs
- creating a central place where consumers can see information on all of the options across providers
- improving consistency of the language used to describe products, whether this be industry-led or regulated[137]
- greater clarity around what constitutes regulated guidance and advice, to minimize the "grey area" of regulatory uncertainty

8.61 We are not proposing to take further any initiatives on improving consistency of the language used to describe products because of ongoing industry initiatives. Regarding the distinction between regulated guidance and advice, we have already published a short explanatory note[138] and will consult on new guidance on the advice boundary later in 2017[139]. We continue to work through our Advice Unit to provide regulatory feedback to providers developing automated models that seek to deliver lower cost advice to consumers.

Reviewing the communications sent to consumers before and when they access their pension pots

8.62 Wake-up packs are designed to be one of the main sources of information for consumers about their options. Wake-up packs are also important because they direct consumers to available sources of help and support, most notably Pension Wise. We updated these following the introduction of the pension freedoms to make consumers aware of the additional options available to them.

8.63 However, we have concerns that they are not currently as effective as they could be, partly because these packs are sent to consumers when many have already made up their minds about what they want to do with their savings, at least initially. We are currently conducting behavioural research with several providers to test how to make wake-up packs more effective at directing consumers to Pension Wise. We will publish the results of this research.

8.64 We are seeking stakeholder views on whether they support continuing to use wake-up packs as the main source of information to consumers about their options, and, if so, how to make them more effective or whether a more radical approach is needed to rethink and move away from the existing wake-up process. We are considering the following options:

136 Pension Wise will be merged with The Pensions Advisory Service and the Money Advice Service in a single body offering debt advice, and money and pensions guidance.

137 Stakeholders also mentioned ongoing industry initiatives, such as the ABI's voluntary code of conduct on clear, standardised language.

138 www.fca.org.uk/firms/financial-advice-market-review-famr/changes-regulated-activities-order.

139 Financial Advice Market Review: Progress report, 2017: www.fca.org.uk/publication/corporate/famr-progress-report.pdf

- requiring providers to provide shorter wake-up packs and changing when and/or how often the information is sent to consumers (for example, before the age of 55 and yearly)
- moving away from the providers providing wake-up packs, with options including the Pension Wise, the Pensions Advisory Service or their successor body contacting the consumer instead to provide guidance
- building on the Pension Dashboard initiative so that the relevant 'wake-up' information is always accessible to consumers via the dashboard

Developing further tools to help consumers compare the different options

8.65 In addition to our concerns about the complexity of comparing drawdown products, we are also concerned that it is difficult for consumers to assess which option(s) best suit their needs as products, such as annuities and drawdown, are not directly comparable. The available tools only make comparisons at a high level. As a result, consumers may not understand how to compare the pros and cons of the different products and may select a product that is not best suited to their needs.

8.66 We recognise that building such tools could be very complex. However, we think there is value in exploring how such tools could be developed and who should provide them. We are seeking stakeholder views on these areas.

8.67 We have also considered introducing rules and guidance setting out our expectations around how calculators should present information to consumers and what would be considered a product illustration for the purpose of tools and calculators. However, we have decided not to introduce rules at this time. First, we have not collected any evidence of harm being caused by the tools and calculators currently available. Second, there is a risk that this may stifle developments of tools and calculators and we want to concentrate on working with providers to innovate in order to provide tools that benefit consumers.

Increasing consumer awareness of enhanced annuities

8.68 Our 2014 thematic review of annuities[140] found that consumers who qualify for an enhanced annuity on the open market but instead purchase a standard annuity from their existing provider receive significantly lower retirement income as a result[141]. We consider that consumers should be aware of their potential eligibility to purchase an enhanced annuity early in the process of deciding which product or option best suits their needs. We will explore whether to introduce an obligation on providers to inform consumers of their eligibility to purchase an enhanced annuity earlier in the process and to warn consumers of the implications on their retirement income of not taking this option.

140 TR14/2 – Thematic review of annuities, 2014: www.fca.org.uk/publications/thematic-reviews/tr14-2-%E2%80%93-thematic-review-annuities

141 The annuity information prompt will increase consumers' awareness of their potential eligibility to purchase enhanced annuities. However, the requirement to provide the information prompt is only triggered when consumers are looking to obtain annuity quotes.

Questions for feedback

Q6: Do you agree we should act to make existing information more impactful and effective rather than introducing new disclosure? In particular what are your views and suggestions on our proposals to:

- **Improve the effectiveness of communications sent to consumers before and when they access their pension pots?**
- **Explore the feasibility of introducing tools that compare different products and options?**
- **Raise consumer awareness of potential eligibility to purchase an enhanced annuity earlier in the consumer journey? Is there a better way of ensuring consumers are made aware?**

Areas where we are not proposing specific remedies at this stage

8.69 At this stage, we are not proposing to pursue specific interventions to deal with two of the areas where we identified emerging issues.

Provider withdrawal from the annuity market

8.70 We found that some of the large providers have withdrawn from the open annuity market due to a combination of factors (see Chapter 5). However, many of these providers are still offering annuities to their existing customers, and could re-enter the market in the future. We expected some consolidation because of the lower demand for annuities after the pension freedoms, but we will continue monitoring the market to ensure that it remains open and competitive.

Limited innovation for mass market consumers

8.71 We have seen little innovation in terms of products for mass market customers, particularly those who do not take advice. We consider that the incentives for innovating will increase over time as consumer DC pots increase in size. We have heard that some providers are already developing new product propositions, and will monitor developments in this area. Stakeholders agree that over the longer term products will need to be developed that combine flexible access with some guarantees, such as products with a deferred annuity element. As part of our analysis, we did not identify specific regulatory barriers we should be addressing at this stage.

8.72 Our findings on the level of innovation are consistent with those set out by the DWP as part of its recent decision not to allow NEST to enter the retirement income market at this time.[142] We agree with the DWP that this decision should be kept under active review. If the market fails to deliver innovative products for mass market consumers, there may be scope for NEST to fill an important gap. We will continue monitoring the developments with a view to intervening if the potential issues materialise.

142 NEST: Evolving for the future, 2017: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596995/government-response-nest-evolving-for-the-future.pdf

Questions for feedback

Q7: Do you agree that we should not be intervening in these areas at this stage? If not:

- **Why do you consider we should be intervening?**
- **What interventions should we be pursuing?**

Related FCA, Government and industry work

8.73 Our proposals are part of the wider package of FCA work on pensions and retirement income, as well as other policy initiatives that will affect the retirement income market:

- **Annuity** providers will be required to let their customers know how much they could gain from shopping around. Providers will be required to comply with these new rules from March 2018.[143] These rules aim to encourage consumers to shop around for annuities to thus increase the competitive pressure on the incumbent providers.
- We have **capped early exit charges** in existing and new personal and stakeholder pension schemes at 1% for existing customers and no charges for new customers. The cap aims to ensure that those consumers who want to access their funds following the pension freedoms can do so from the age of 55 without facing undue charges.
- The industry is developing **a pensions dashboard**, a consumer–friendly digital interface which enables consumers to view all of their lifetime pension savings in one place. The dashboard may make consumers more engaged with their pensions.
- The Government has decided to create a **Single Financial Guidance Body.**[144] The new body will provide debt advice, money guidance and pensions information and guidance. It will bring together and replaced three publicly funded services: the Money Advice Service, the Pensions Advisory Service and DWP 'Pension Wise' guidance. The aim of this service is to ensure that as many consumers as possible receive high-quality, impartial financial advice. The Government anticipates that the new body will be launched no earlier than autumn 2018. In the meantime, these three bodies will continue to deliver their statutory functions.
- The markets for decumulation and asset management are inextricably linked. Three quarters of UK households have occupational, workplace or personal pensions and therefore use the services asset managers offer. The Final Report to our **Asset management market study** in June 2017 set out our findings and a significant package of remedies to make competition work better in the market.[145]
- The FCA is proposing to place **a duty on asset managers to disclose aggregate transaction costs in a standardised format** to workplace personal pension schemes that, directly or indirectly, invest in their funds. The DWP is applying a similar duty to

143 www.fca.org.uk/publication/consultation/cp16-37.pdf
144 https://www.gov.uk/government/consultations/public-financial-guidance-review-consultation-on-a-single-body
145 https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf

occupational schemes. The FCA has also proposed that asset managers provided the breakdown of transaction costs on request with the total broken down into categories of identifiable costs. The FCA will publish a Policy Statement later in the year setting out the final rules and guidance.

- The Government completed a review of the financial advice market in March 2016. It published recommendations around making advice more affordable and accessible to individuals over the course of their lifetime. It also highlighted the role of innovation in reducing potential barriers to lower cost advice models. Work is underway on a number of initiatives which may impact the way consumers' access advice in retirement and interact with their pensions. For example, the Government consulted in February 2017 on introducing a pensions advice allowance.

8.74 In addition, we will continue to monitor the market using a combination of market data we collect from providers and ongoing provider supervision. We will also continue to take enforcement action against investment and pension liberation scams.

Next steps

Further work planned

8.75 We will continue to develop our thinking on whether we should intervene at this stage and what interventions would be most effective. To reach a view, we will assess the further evidence we collect on non-advised drawdown and responses from stakeholders to our interim report.

Final report

8.76 We expect to publish our final report in the first half of 2018.

8.77 The final report will set out our final findings and will provide an update on any remedies we intend to pursue. If any remedies require making changes to FCA rules and guidance, these will be subject to a separate formal consultation process that will include us carrying out cost benefit analysis of the proposals. In addition to our consultation process, we will continue to engage with the relevant stakeholders, including HM Treasury, the DWP, HMT and tPR.

Stakeholder views

8.78 We would like to hear your views on this report, including on the questions set out throughout this chapter. Please send us your views by 15 September 2017 to RetirementOutcomes@fca.org.uk.

Appendix 1
Abbreviations used in this paper

ABI	Association of British Insurers
DB	Defined benefit
DC	Defined contribution
DWP	Department for Work and Pensions
CP	Consultation paper
FAMR	Financial Advice Market Review
GAR	Guaranteed annuity rate
IFA	Independent financial adviser
IPP	Individual personal pension
ISA	Individual savings account
KFI	Key features illustration
MAS	Money Advice Service
NEST	National Employment Savings Trust
PS	Policy statement
SIPP	Self-invested personal pension
tPAS	The Pensions Advisory Service
tPR	The Pensions Regulator
UFPLS	Uncrystallised Funds Pension Lump sum

Appendix 2
Glossary of terms used in this document

Accumulation	The phase during which a consumer saves into a pension pot during his/her working career to build up a pension pot for their retirement.
Annuity	A form of insurance policy that consumers can purchase with their pension pot. They will typically provide the consumer with a guaranteed income for life, or for a fixed number of years.
Association of British Insurers (ABI)	A trade association made up of insurance companies in the UK. Have around 250 companies in membership which account for over 90% of the UK insurance market.
Automatic Enrolment	A legal requirement that every employer must automatically enrol its workers into a qualifying pension scheme subject to certain criteria. Employers will have gradually enrolled all eligible workers into qualifying pension schemes between 2012 and 2018.
Blended Solutions	A combination of annuity and drawdown features, where consumers can pick and choose different combinations of these products to serve different needs.
Decumulation	The process of converting pension savings into a retirement income.
Default Fund charge cap	FCA rules require firms that operate workplace personal pension schemes used for automatic enrolment to implement a charge cap within the default funds of those schemes. Similar measures have been implemented in regulations for occupational schemes for which the Pensions Regulator is responsible for regulating.
Defined Benefit (DB)	A scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. Most commonly, the benefits are related to members' earnings when leaving the scheme or retiring, and the length of pensionable service. Also known as 'final salary' or 'salary-related' scheme.
Defined Contribution (DC)	A scheme in which a member's benefits are determined by the value of the pension fund at retirement. The fund, in turn, is determined by the contributions paid into it for that member, and any investment returns. Also known as a 'money purchase' scheme.
Equity Release Product	Products that enable a consumer to access the equity acquired in his/ her property. Typically equity release products will either be lifetime mortgages, which allow an individual to borrow a proportion of their home value, or home reversion, where an individual sells a share of their property, but retains a right to continue living in the property.

Financial Services nd Markets Act 2000 (FSMA)	The primary source of legislation governing financial services and markets in the UK.
Fintech	A term which includes any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking and investment.
Guaranteed Annuity Rate (GAR)	A guaranteed annuity rate provides a policy holder the right to purchase an annuity from their current provider at a guaranteed minimum rate, which tends to be higher than the competitive rate offered on the open market.
Lifetime ISA (LISA)	A form of individual savings account for 18 to 40 year olds designed for saving towards a first home or retirement. A 25% government bonus will be added to savings of up to £4,000 per year.
National Employment and Savings Trust (NEST)	A trust based, defined contribution arrangement established to support automatic enrolment. Aims to give all employers access to a low cost scheme compliant with automatic enrolment.
'Non-Advised'	Sales made by firms that do not involve any personal recommendation and leave the customer to decide how they wish to proceed.
Income Drawdown	Flexi-access income drawdown involve investing a pension pot into a fund or funds, allowing the consumer to access flexibly. Income drawdown providers offer a range of different investment funds, with different investment objectives, risks, and levels of charges.
Independent Governance Committees (IGCs)	FCA rules require providers of workplace personal pension schemes to set up and maintain independent governance committees. They have a duty to act solely in the interests of scheme members, assessing and, where necessary, challenging providers on the value for money of workplace personal pension schemes.
Hybrid Products	This is a term used to cover a number of products that offer some form of guarantee to the consumer. It encompasses newer structured products and variable annuities that offer guaranteed death benefit, guaranteed withdrawal benefits and guaranteed income benefits, as well as more traditionally offered products such as with-profits and unit-linked annuities. These differ from blended solutions.

Pension dashboard	A pension dashboard provides the consumer with an overview of the key information on all the pension funds that they have.
Pension Wise	A service targeted at non-advised consumers aged 50 or older who are starting to think about their retirement income decision. It aims to provide tailored and independent information to consumers about their options, free of charge.
Self-Invested Personal Pension (SIPP)	A pension 'wrapper' that holds investments until an individual retires and draws a retirement income. It allows individuals to make their own investment decisions from a range of investments approved by HM Revenue and Customs (HMRC).
Solvency II	A capital adequacy regime which applies to the insurance industry in EU member countries. Intended to better protect consumers' interests by reducing the chance of firm failure and likelihood of market disruption.
Tax-free cash	Also known as the Pension Commencement Lump Sum, tax-free cash refers to the lump sum of money you can withdraw from you pension pot from age 55. Consumers can normally take up to 25% as tax-free cash though some older pensions may allow more.
The Pensions Regulator (tPR)	The UK regulator of occupational pension schemes.
Uncrystallised fund pension lump sum (UFPLS)	UFPLS is not strictly a product, but an option through which consumers can access their pension savings. UFPLS features allow consumers to take partial or full withdrawals of cash from their accumulation pension savings. When making partial withdrawals, 25% of each withdrawal is tax-free, with the remaining 75% of each withdrawal subject to tax.
Wake-up pack	Information sent to consumers before they decide which retirement income product(s) to purchase.
Zero Income Drawdown (ZID)	A term used to describe drawdown which consumers' enter into without having an arrangement for a regular income in place.

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