Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Donald and Caroline,

FCA Consultation on capping early exit pension charges

This is the response of the Financial Services Consumer Panel (the Panel) to the FCA's consultation on capping early exit pension charges.

We welcome the introduction of a pension exit charge cap, which will enable more consumers to have access to pension freedoms without unfair charges. We would also encourage the government, and the FCA, to extend the cap to under-55s to encourage switching to more efficiently charged schemes.

The FCA has had to make a number of assumptions and rely on evidence provided by firms due to the short time frame it has had to implement this charge cap. It would have been helpful for the FCA to have carried out a fuller assessment of all appropriate options, including examining in more detail the relationship between the value of a policy and the early exit charge, and whether a flat rate cap, perhaps graduated by fund value, would have been more appropriate.

We are disappointed that the government has continued to exclude Market Value Adjustments (MVAs) from the definition of an early exit charge and that the FCA is therefore unable to consider their effect on consumers exiting pension contracts early. We have also mentioned this in our response to the Department for Work and Pensions' consultation on an exit charge cap in occupational pension schemes.

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel

Consultation Questions

The Panel has only answered questions where it has substantive comments.

Q1: Do you have any comments about the impact of our proposals on equality and diversity?

HM Treasury has placed a duty on the FCA to cap early exit charges for consumers eligible for pensions freedoms only. However, the same arguments for capping exit charges apply to all pension contracts. We would encourage the FCA to ask the government to extend the cap to under-55s to encourage transfers to more efficiently charged schemes.

Q2: Do you agree with our methodology?

The FCA has recognised the risk that firms might increase prices to compensate for the introduction of an early exit charge cap, but has concluded this is not very likely to happen. It is not clear what evidence the FCA has based this conclusion on. We would urge the FCA to monitor firm's actions following the introduction of the cap and take any appropriate action to ensure the cap doesn't lead to a 'waterbed' effect.

Q3: Do you agree that a cap of 1% on early exit charges in existing pension contracts is appropriate? If not, do you consider that a cap at a different level, or applied in a different manner, would be more appropriate (and, if so, why)?

It is unclear how the FCA concluded a percentage cap was the most appropriate option, or if it considered whether a flat rate cap, perhaps graduated according to the policy value, would have been fairer for consumers. The FCA needs to demonstrate it has considered a 'flat rate' option and back up with evidence its decision to go for a percentage rate cap.

Firms have told the FCA early exit charges were designed specifically to recover outstanding up-front sale and advice costs left unrecovered at the point of exit, and that for most firms the processing of an early exit does not give rise to additional administrative costs. It is not clear from the consultation document whether exit charges are only made up of up-front sale and advice costs plus an administration fee, or if there is something more that adds to the cost of exit for firms. It would be helpful to understand how the early exit costs to firms differ according to the value of the policy in order to determine whether a percentage cap, a flat rate cap or another option would be more appropriate.

Q4: Do you agree that a cap of 0% on early exit charges in new pension contracts is appropriate? If not, do you consider that a cap at a different level, or applied in a different manner, would be more appropriate (and, if so, why)?

Yes. Firms have said early exit charges were designed to recover the cost of sale and advice.