Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES
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By email: cp18-17@fca.org.uk

Financial Services Consumer Panel Response: Proposed changes to our rules and guidance – Retirement Outcome Review (CP18/17)

Dear Adam and Richard

The Financial Services Consumer Panel (The Panel) welcomes the opportunity to respond to this consultation. Given the change in the pensions landscape, these remedies cannot come soon enough.

Our main points relate to opt-out guidance – which we believe should coincide with the wake-up packs – and the need for standardised information.

The remedies are likely to be more effective if consumers are engaged throughout the period they are saving into a pension. We hope the FCA will support the Simpler Annual Statement, due to be launched this autumn, and the Pensions Dashboard.

The Dashboard has had strong support from industry and consumer representatives. While Government has finally decided it should be implemented, there are risks in handing the project over to the industry. There should be strong consumer representation in the next phase of implementation, we hope the FCA will support this.

Yours sincerely

Sue Lewis
Chair, Financial Services Consumer Panel

FCA Questions

Q34: Do you agree with our proposals on 'wake-up' packs? If not, how should we change them?

The FCA/FSA and the ABI have been issuing guidance and statements on pre-retirement communications since 2001, in an attempt to get the industry to provide clearer, more engaging, wake-up packs. Yet progress has been glacial. Even though some pension providers are giving consumers 'simpler' statements, these are still blighted by jargon and industry terminology. As the FCA recognises, more is needed.

The single page summary document is a step forward, but many consumers will receive wake up packs from more than one provider. The language and terminology needs to be consistent across all the packs. The FCA should work with TPR, industry and consumer representatives to achieve this, mandating standards if necessary.

It is not sufficient for the wake-up pack to signpost to Pension Wise. Prominent signposts already exist, they are not effective. The wake-up pack should also trigger the Pension Wise guidance opt-out process. This is early enough for people not to have made a decision about their pension. The opt-out process should be managed by the Single Financial Guidance Body to avoid providers putting pressure on their customers to make decisions that may not be in their best interests Banning marketing material will not be enough. Firms will be able to market through links to calculators, etc, and the proposal for guidance set out in 4.31 looks vague and unenforceable. Opt-out is particularly important for consumers considering transferring their pension to an FCA-regulated scheme for the purpose of cashing it in.

Q35: Do you agree with our proposal to mandate specific retirement risk warnings alongside 'wake-up' packs? If not, how should we change it?

Yes.

Q36: Do you have any further comments on our proposals for retirement risk warnings?

We are interested in the proposal to allow firms to use information already held on their customers to provide more tailored risk warnings alongside the new 'wake up' packs. We urge the FCA to retain the principles of simplicity and standardisation for all elements of the wake-up pack proposals. However, given the often inadequate manner in which current risk warnings are delivered, we would expect the FCA to monitor this closely and look forward to the proposed guidance providing further detail.

Q37: Do you have any comments on our proposals for the reminder?

The evidence suggests that a reminder, even if well framed, is going to make little difference. We see no alternative to a properly managed opt-out process.

Q38: Do you agree with our proposal to require firms to ask consumers questions that will help a consumer determine whether he or she is entitled to an enhanced annuity?

Yes. Providers already have a duty to ensure that consumers are made aware of their potential eligibility to purchase an enhanced annuity, but as Thematic Review 16/7 found, this has not had the desired effect.[1] This was due partly to poor communications and delivery of key messages.

Requiring firms to ask eligibility questions is a welcome move. However, the FCA needs to determine what these questions should be. Providers offering only standard annuities may not ask robust enough underwriting questions to generate a meaningful whole of market quote. Moreover, it is in the interest of providers who only sell standard annuities to discourage customers from answering the questions, so they can generate a market-leading quote on a non-enhanced basis.

Q39: Do you agree with our proposal to require that firms include information about the consumer's potential eligibility for an enhanced annuity in the quote for comparison?

Yes. However, we assume there will be also be signposting to the Money Advice Service annuity comparison tables, as this will provide consumers with the ability to compare quotes from all annuity providers.

Q40: Do you agree with our proposal for amending the annuity information prompt requirements for income driven quotes? If not, how would you suggest we amend the information prompt to achieve our policy objective?

Yes. However, as with Q39, we assume there will still be signposting to the MAS annuity comparison tables.

Q41: Do you agree that key information should be summarised on the front page of KFIs?

Yes, but it must be free from jargon and use terms consumers will understand. For example, 'Reduction in Yield (RIY)' will mean nothing to most consumers. With the explanation as it is given, RIY could be rephrased (on the summary page at least) as 'Impact of Charges'.

[1] https://www.fca.org.uk/publication/thematic-reviews/tr16-7.pdf

Q42: Do you agree that the summary information should show a one-year single charge figure expressed as a cash amount?

Yes. As we noted in our response to the interim report, products must be comparable and one way of doing this is for providers to amalgamate all of their 'policy' charges into a single figure. As well as providing much greater clarity, this will help highlight the various costs that FCA research showed many people were unaware of.[2]

It will have the added benefit of making an income drawdown table much simpler to create and to use as a comparison tool (as noted by the Oxera Research in Annex 5 of the interim report.[3])

The FCA is right to be concerned about the prospect of firms 'gaming' the first-year charge. It should monitor firms' behaviour closely and take robust enforcement action where firms are misleading consumers by amending their charging structures to create a favourable year-one figure.

Q43: Do you agree that information in KFIs should be presented in real terms (that takes account of inflation)?

Yes. However, there is merit in further testing of consumer understanding and decision-making in relation to this.

Q44: Do you agree that a KFI should be provided when a client is accessing drawdown as an option or variation under an existing contract or UFPLS option under an existing contract, and also the first time they take an income (where this happens later)?

Yes. This information is essential not only at the point of retirement, but beyond it too, including the point of taking out a new contract, varying an existing one (including amending the level of income being drawn down) and taking income for the first time (if this happens at a later point).

Q45: Do you agree that firms should provide regular client communications for those who have withdrawn tax free cash but not taken an income?

Yes, given the thematic review found that many consumers will have been left without the information they need when reviewing their drawdown decisions. The most important and often most complex decisions will be taken long after tax-free cash has been taken.

The findings relating to the alarming number of people holding their pension savings in cash during retirement add real urgency to the need to improve communication beyond the point at which people first access their pension savings.

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[2] https://www.fca.org.uk/publication/occasional-papers/occasional-paper-32.pdf, https://www.fca.org.uk/publication/market-studies/ms15-2-2-annex-3.pdf

[3] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report-annex5.pdf

Q46: Do you agree that firms should regularly remind consumers to consider reviewing their decisions, particularly investment choices, rather than reminding them how to obtain advice?

Yes. Realistically, only a small minority of drawdown investors will access financial advice. Those who don’t, are often left with difficult decisions to make due to the complexity of the products on offer and poor clarity of information provided. A menu of charges could be presented to the consumer that shows exactly what they are paying for in a clear and comprehensible way, jargon-free, to help them make an informed decision about their investment.