

# Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Jonathan,

## **MS16/1.2 – Retirement Outcomes Review**

This is the Financial Services Consumer Panel's response to the FCA's interim report on the Retirement Outcomes Review.<sup>1</sup>

Many consumers have taken advantage of the increased flexibility of the 2015 pension reforms. However, the report highlights some worrying issues created by the changes, and the way in which they were implemented, which urgently need addressing.

The complexity of the decisions consumers face at retirement means that advice or guidance is essential to avoid widespread long-term detriment. We are particularly concerned about the increase in non-advised drawdown, which the FCA has highlighted as an emerging issue.

Consumers often lack the knowledge, confidence and skills needed to make informed financial decisions<sup>2</sup>. But even those with high levels of financial capability cannot reasonably be expected to navigate a marketplace of which they have had no previous experience, and where products are over-complex and opaque. The report underlines the scale of the challenge facing consumers having to make decisions without a full understanding of implications, including the possible tax and welfare consequences of accessing their pension pots.

Risk warnings have proved inadequate, as the research in Annex 3 shows, with consumers often perceiving them as mere "back covering". It found that consumers "motivated by mistrust in pensions may be making uninformed decisions" and that consumers don't always take advantage of the guidance on offer (with just 10% using the information sent by their pension provider).

With the take-up of Pension Wise disappointing, there is a compelling case now to make advice or guidance a requirement for consumers making retirement income decisions. With the review finding deep mistrust in the industry, this has to be impartial and independent.

We support a default guidance service. It should be delivered by the new Single Financial Guidance Body. It would require some operational scaling up and investment, but if there's one over-arching conclusion to be drawn from the interim report, it's that consumers need truly impartial advice on their decisions.

We welcome the depth of the FCA's work in this area and look forward to engaging further.

Yours sincerely

Sue Lewis, Chair, Financial Services Consumer Panel

<sup>1</sup> <https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review>

<sup>2</sup> [https://prismic-io.s3.amazonaws.com/fincap-two%2Fd08746d1-e667-4c9e-84ad-8539ce5c62e0\\_mas\\_fincap\\_uk\\_survey\\_2015\\_aw.pdf](https://prismic-io.s3.amazonaws.com/fincap-two%2Fd08746d1-e667-4c9e-84ad-8539ce5c62e0_mas_fincap_uk_survey_2015_aw.pdf)

## Responses to questions

### **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?**

Yes. The concerns about non-advised drawdown mirror our own.

## Our approach to developing potential interventions

### **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**

On the whole, yes. However, the FCA should take a more proactive approach to tackling some of the issues uncovered in Annex 3, particularly on non-advised drawdown charges and disclosure. The proposal for "additional protections for consumers who buy drawdown without advice" does not go far enough to tackle the significant problems the FCA found.

The report also notes that the FCA wants to "encourage the industry to develop innovative solutions to help meet consumers' needs". Innovative product solutions may have a role to play but they need to be clearly in the customer's interest.

The FCA has talked to regulators in countries with comparable decumulation systems. None of these has yet found 'silver bullet' product-based solutions to investing through retirement. While innovative products may emerge as the market evolves, the emphasis should be on using technology to improve engagement and ensuring that consumers take impartial, independent guidance or advice.

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

### **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?**

Yes, but we have some reservations.

Much would depend on the ability of providers to communicate with customers about their desired retirement outcomes, the default pathways, and how these would be reviewed. We have seen from the FCA's own research (most recently the Retirement Outcomes Review and the Asset Management Market Study) and several of our own studies – such as our work on Online Investment and Advice Services<sup>3</sup> – that providers continue to fall short when it comes to communicating effectively with consumers in terms that they understand.

There is a risk too that 'defaulted' consumers may effectively be 'locked out' of products that are more suitable for their needs, particularly as the market evolves.

Default investment pathways can be effective provided such shortcomings and potential pitfalls are addressed, and there are robust suitability frameworks in place.

- **Should a charge cap also be considered for default investment pathways?**

Yes. This would be consistent with the charge cap for auto-enrolment workplace pension schemes and, as the report points out, it would help protect consumers not engaging with

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<sup>3</sup> [https://www.fsc.org.uk/sites/default/files/final\\_panel\\_position\\_paper\\_online\\_investment\\_and\\_advice\\_services.pdf](https://www.fsc.org.uk/sites/default/files/final_panel_position_paper_online_investment_and_advice_services.pdf)

their investment decisions from being subject to excessive charges (with the likely outcome being further deterioration in trust).

- **Should the role of IGCs be extended to decumulation products?**

Yes. However there is a need for more guidance from the FCA on how IGCs define value for money.

We would also welcome a rethink on the review of the effectiveness of IGCs. While we understand the rationale for the delay, IGCs are at an early stage of their development and it is important to understand fully how well placed they are to help tackle issues identified in both the Retirement Outcomes Review and the Asset Management Market Study.

- **Do you agree with the decision not to pursue the option of introducing an appropriateness test for non-advised drawdown at this stage?**

We understand the FCA's decision, given the above proposals. Together with a requirement to take independent, impartial guidance or advice, well-designed, good quality default investment options would help prevent people from sleepwalking into investment decisions that leave them worse off in retirement. However, if the FCA goes ahead without the introduction of an appropriateness test at this stage, we would urge it to keep that decision under review, and ensure that firms are giving consumers effective messages about default options.

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

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

Yes. Indeed, some firms already offer this. The research shows clearly that the increase in drawdown has been driven partly by consumers wanting to access their tax-free cash on a flexible basis, resulting in the rise of 'zero income drawdown'. However, consumers should be able to shop around to transfer their entire pot without actually having to buy a drawdown product.

However, there are some risks to decoupling. For example, savers in expensive and uncompetitive legacy pensions may be more likely to remain in them if they are able to take their tax-free cash without having to access or transfer their pension. Also, there is a danger of this option becoming the default option for most people without considering other options such as UFPLS.

A requirement to take independent, impartial advice or guidance would help mitigate this risk.

A point that was made in the recent workshop held by the FCA was that if de-coupling is permitted for DC pensions, this should be extended to DB pensions. This might help reduce the high levels of DB to DC transfers, which seem primarily motivated by a desire to access the pension freedoms.

Remedy 3: Shopping around remedies

**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?**

It is important that any drawdown comparison tool is mandated by the FCA. Too many firms have an interest in framing and designing comparison tools in a way that serves their own interests and not those of consumers. And we know from the research the FCA commissioned that people who made use of pensions freedoms – and particularly those who withdrew their entire pot – did so because they did not trust the industry.

Consumers will only trust comparison tools that are truly impartial and hosted by an independent source, such as the Money Advice Service/the Single Financial Guidance Body.

- **What are your views on the benefits and costs of mandating the use of a summary cost metric in customer’s communications?**

We believe this is essential. Currently there are numerous policy costs and charges on drawdown products including transfer in (and out) charges; a charge if you take income and a charge if you don’t (with some providers); higher charges for monthly withdrawals and for ad hoc withdrawals. This is all before advice charges or investment charges are considered.

Products must be comparable and one way of doing this is for the FCA to mandate providers to amalgamate all of their ‘policy’ charges into one single figure. This will also make the development of an income drawdown table simpler to build and simpler to display. It will also have the benefit of highlighting to customers that there are costs which the FCA research showed many people were unaware of.

It should also have the benefit of reducing costs, some of which are clearly not providing value for money, as transparency should increase competitiveness.

- **Do you agree with the decision not to pursue the alternative measures we considered at this stage?**

Yes, provided the FCA carries out further work on identifying alternative measures that could be implemented in future. Consideration could be given to a restoration of controls on non-advised drawdown, such as a 4% withdrawal rule, or a more sophisticated model where, for instance, an investor’s income would automatically be reduced if markets fell by, say, 10%. Both these options have a certain degree of industry support. However, interventions should not deter consumers from using drawdown where this would be the best option for them.

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

**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?**

The Panel welcomes the FCA’s recognition that simply introducing more information is not the answer.

There is considerable scope to improve existing information. We are disappointed by the absence of remedies to address FCA’s findings of inconsistent information, terminology and presentation.

The interim report simply refers to “additional protections for those buying without advice”. The Panel reiterates its call (made in the position paper on our research into the investment advice market)<sup>4</sup> for the FCA to establish a working group to develop simpler, more consumer-friendly language that can be used consistently in non-advised sales, including those made through digital channels. We would also like to see more supervision - and, where necessary, enforcement - activity where the FCA encounters significant or repeated failures in communications.

Firms should make it clearer to consumers that they should go to Pension Wise before doing anything else. Default guidance would help here.

The industry is currently able to direct consumers towards other services. The ABI’s Making Retirement Choices Clear material includes the principle that “Customers should be

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<sup>4</sup> [https://www.fs-cp.org.uk/sites/default/files/final\\_panel\\_position\\_paper\\_online\\_investment\\_and\\_advice\\_services.pdf](https://www.fs-cp.org.uk/sites/default/files/final_panel_position_paper_online_investment_and_advice_services.pdf)

signposted to the Government's free and impartial guidance service, Pension Wise, or to a regulated financial adviser".

This ambiguity is compounded by COBS 19.4.16, which states:

*(1) When a firm communicates with a retail client about the client's personal, stakeholder pension scheme, FSAVC, annuity contract or pension buy-out contract which is provided by the firm, unless the circumstances in (2) apply, the firm must:*

*(a) refer to the availability of the pensions guidance;*

*(b) offer to provide the client with information about how to access the pensions guidance; and*

*(c) include a recommendation that the client seeks appropriate guidance or advice to understand their options at retirement.*

This is open to interpretation.

Take-up of Pension Wise might be improved if the FCA were to review the relevant section of COBS and identify ways in which it can more effectively promote Pension Wise (or whichever impartial guidance service is the future 'first port of call' for consumers).

We would also urge the FCA to review the timing of communications. The interim report refers to information sent before and at retirement. In a market in which large numbers of people remain invested during retirement, quality information is needed not just before and at the point of retirement, but beyond it too.

- **Explore the feasibility of introducing tools that compare different products and options?**

Comparing different types of product at retirement is complicated. Default guidance would help, but we support the FCA's proposal to look into potential cross-product comparison tools.

Consumers are not only comparing different products, however. We would encourage the FCA to go further by looking into ways of comparing the total cost of non-advised drawdown with the cost of entering drawdown through the advised route. The FCA should seek to develop a clearer understanding of how the non-advised and advised routes compare in terms of cost and how those costs can be made more transparent.

- **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?**

Providers already have a duty to ensure that consumers are made aware of their potential eligibility to purchase an enhanced annuity, and the implications of not making that choice. The FCA's thematic review of annuity sales practices last year<sup>5</sup> uncovered failures in this area and some firms were referred to enforcement. The challenge here lies not in finding a better way to ensure consumers are aware, but in making sure that firms are communicating effectively with consumers regarding enhanced annuity options.

Areas where we are not proposing specific remedies at this stage

**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?**

The reasons given for not advancing remedies relating to provider withdrawal from the market and innovation for mass-market consumers seem sensible at this stage.

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<sup>5</sup> <https://www.fca.org.uk/news/press-releases/fca-publishes-thematic-review-annuity-sales-practices>