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

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This is the Financial Services Consumer Panel's response to the Financial Conduct Authority's (FCA's) interim findings and proposed remedies on the Retirement Income Market Study.

In 2013, the Financial Services Consumer Panel carried out extensive research into the annuities market[1]. Our research found similar deficiencies highlighted in the FCA's interim market study. We made a number of recommendations for improvements; one of which was for the FCA to embed in its rules a code of conduct applicable to firms selling annuities on a non-advice basis. It remains our strong view that this would offer improved consumer protection to those who an annuity will remain a good option for. This recommendation has not been advanced by the FCA; nevertheless we have followed developments in the market very closely and engaged where necessary.

We remain as keen as ever to ensure that consumers obtain good outcomes from their retirement products. Our comments below are offered to improve and shape the remedies needed to tackle identified market deficiencies.

The FCA's proposals

> **The FCA Proposes to require firms to make it clear to consumers how their quote compares relative to other providers operating on the open market.**
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> We appreciate the sentiments behind this remedy; putting the onus on providers to tell their customers that there may be better rates elsewhere. We do, however, have some concerns if this proposal is confined to annuities and annuity rates because the offering post April 2015 will be more diverse than annuities. Therefore, focusing on

[1] Annuities: Time for Regulatory Change, December 2013. http://www.fs-cp.org.uk/publications/pdf/annuities%20position%20paper%2020131203.pdf

annuities may be ineffective if this is provided before the customer has decided on which retirement income option is best suited to him or her. The message post April 2015 will therefore need to cover more than annuities, and any conversation or documentation that relates to shopping around must encompass other products.

However, if this proposal is intended to cover the conversation between provider and customer once the customer has already decided to purchase an annuity, then we support the requirement for providers to compare the provider's own rate with open market rates available. However, any quote comparison information should be delivered within a standardised, plain English format that all providers must follow. If the providers are given too much leeway in how this information is presented, it will over-complicate it.

The FCA's report already highlights some possible problems with the practicalities of this new requirement, however if the MAS annuity comparison tables are used for the comparison, and it is made clear to the customer that the internal and external quote is not based on their exact personal circumstances, then this information could be useful as a final check before purchase. That said, the information should be accompanied by encouragement that the customer take further advice and investigate fully the options under the open market, by obtaining a personalized quotation before purchase.

To encourage shopping around and seeking advice elsewhere, the Panel is of the view that providers should only provide factual information about the policy the consumer holds with them i.e. size of the pension pot and any other product features they should be aware of i.e. guaranteed annuity rate or transfer/exit penalties. Providers could also alert their customers to the retirement income products they provide, but not provide a quote at this stage. Instead, the customer should be directed to the pension guidance service for the discussion regarding options. If this method is to work correctly, it is essential that the pension guidance service is in a position to provide information about what level of income could be achieved either through the purchase of *a* guaranteed income i.e. annuity or a flexible income (i.e. drawdown or UFPLS) using certain assumptions.

To facilitate this, the Panel believes that a universal calculator should be built for use by the pension guidance service. This could work in conjunction with the MAS annuity tables. For example, if an annuity is provided as the benchmarked figure then drawdown and UFPLS could be shown alongside this, using certain standard assumptions. The calculator, once built, could be made available to all providers, advisers and service providers so there is consistency in the standard rate of growth used which should be low. Life expectancy rates could be pulled from the Office of National Statistics.

The calculator could show at what point the pot might be exhausted if a given level of income was drawdown each year/month and/or what level of income the pot might be able to provide given a certain level of growth throughout expected life. There are already commercial calculators available on the market, so we do not believe this would be difficult for the FCA or Her Majesty's Treasury digital team to build. At the very least, assumptions for such a calculator should be set by the FCA in a similar way that assumptions for investment illustrations are set.

The FCA wishes to recommend to both the pensions guidance device and firms to take into account framing effects and other biases when designing tools to support consumer decision-making.

The Consumer Panel agrees that the options open to consumers need framing. Language will be very important. We strongly believe that guidance providers should talk about 'retirement income' and the word 'annuity' should be dropped. It should be 'guaranteed income' or 'flexible income not guaranteed'. There also needs to be a simple term used for the ability to withdraw a series of lump sums from the uncrystallised pension fund (currently referred to as UFPLS). This is not the same as drawdown and we firmly believe should be presented to the consumer as a separate option showing the different risks and benefits to drawdown. Consumers may not understand the subtle differences between a standard drawdown product and UFPLS unless a clear jargon free explanation of those products and a sensible product name can be found.

The FCA proposes to work with Government in developing an alternative to the current 'wake up pack'.

It is important that the FCA works closely with independent organizations such as Money Advice Service and The Pensions Advisory Service in developing the 'wake up pack'. Whilst firms should have some input, we believe there will always be some conflict present, so the FCA will therefore need to take more of a prescriptive role in the communications between firms and their customers. Wake up packs should be short and consistent irrespective of which provider is issuing them.

As mentioned above, we believe the only branded information that should be provided in the 'wake up pack' should be factual relating to the policy the customer holds with the provider. All information relating to options available should be provided by an independent source such as the Money Advice Service.

If independent sources of information are included in the 'wake up packs', these should cover the options available i.e

1 defer
2 take whole pot as cash
3 take tax free cash and buy annuity
4 take tax free cash and put rest in drawdown
5 draw income as and when with each drawing partly tax free
6 a combination of options

Also, the risks associated with each option should be highlighted i.e., inflation risk, longevity risk, investment risk, tax risk.

When developing the new wake up pack, elements of the existing ABI Code of Practice should be retained, although given both the FCA research and research conducted by the Consumer Panel in 2013, it is evident that many providers were either not following the Code to the letter, or were finding ways around it. It is our belief that behavior of providers towards their customers in the 'at retirement' space is too important to be left to a voluntary code, but must now be enforced through regulation.

- The ABI Code of Practice stipulated that:
    - Providers should communicate with their customers clearly and consistently.
    - Prominently highlight the availability of enhanced annuities and indicate whether the provider offered these and if not, how to find out who does offer them.

- Clearly signpost customers to advice and support.

All of these requirements should be retained, but we believe the FCA will need to be more prescriptive about how these requirements are fulfilled.

The FCA recommends the development of a 'Pension Dashboard' which would enable consumers to view all of their pension savings (including their state pension) in one place

The Consumer Panel strongly supports this proposal, however, we believes that responsibility for the initiative sits with a central body with sufficient resources i.e. the FCA or the DWP. It is unrealistic to expect individual providers to develop dashboards which would all have to feed into one central place. However, it should be compulsory for providers to enter details of every new pension onto the central database.

The FCA will continue to monitor the market and are seeking views on whether there are any particular aspects (in addition to those set out below) that they should monitor

The Panel fully supports the FCA's intention to monitor the retirement income market to develop a macro-level picture of how the market is developing and to continue to monitor consumer behaviour and outcomes post April 2015.

In addition we would suggest that close monitoring of how the guidance service is working for consumers should be undertaken by the same team. We are aware that the FCA in its report on the standards for guidance confirmed that it would be reviewing whether the delivery partners are adhering to the standards, but we believe that any monitoring of standards and review of service delivery must sit side by side with the work being undertaken to monitor the post April 2015 decumulation landscape as a whole.