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

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2017/pension-freedoms-17-19/commons-written-submission-form/

23 October 2017

Dear Sir / Madam,

House of Commons Work and Pensions Committee: Pensions Freedoms inquiry

The Financial Services Consumer Panel is an independent statutory voice for financial services consumers. We welcome the opportunity to respond to this Work and Pensions Committee inquiry.

Responses to particular questions

Are people taking proportionate advice and guidance and if not, why not? Are people adjusting behaviour in response to advice and guidance?

The FCA's recent interim report on its Retirement Outcomes Review[1] suggests not. It offers substantial evidence of the difficulties facing consumers having to make decisions without a full understanding of the implications, which may include the tax and welfare consequences of accessing their pension pots. Research for the report found that risk warnings have proved inadequate and are often seen by consumers as being designed primarily as "back covering" for providers.

The report also found that consumers "motivated by mistrust in pensions may be making uninformed decisions". The lack of trust, combined with complex and confusing options, means that many consumers take their pension pot as cash and put it in the bank[2]. They say they do this to feel they are in control of their money. Others take the path of least resistance and buy whatever their provider is offering.

Few consumers take advantage of the guidance on offer. The Financial Advice Market Review Baseline report revealed that only 10% of over 55s who were planning to retire in the next two years had used the Pension Advisory Service (TPAS) and only 7% had used Pension Wise[3].

To what extent will pensions dashboards enable consumers to make more informed decisions about their retirement savings? What are the remaining obstacles to their creation and success and how should those obstacles be overcome?

The pensions dashboard should help people take an interest in their pensions saving. They will be able to see at a glance whether they are saving enough for the retirement they want. It will be particularly valuable in light of auto-enrolment, as many people will build up 10 or more pension pots as they move jobs. These pots won't be lost or forgotten, as many are now.

There are several obstacles to success. For the dashboard to work effectively, it must be comprehensive. In practice, this means compelling providers to take part, which would require legislation. Information needs to be standardised so that people see identical dashboards, whichever provider they use.

[1] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf
[2] http://bandce.co.uk/wp-content/uploads/2017/04/16047_SSGA_TPP-SSGA-Joint-Research_FINAL-COMPLIANCE-APPROVED.pdf
[3] https://www.fca.org.uk/publication/research/famr-baseline-report.pdf

The biggest obstacles are lack of trust and awareness. The Pensions Dashboard Project team found that take-up on the dashboard would be low unless it was visibly Government-led[4]. Consumers do not trust the pensions industry. It is vital that they can access a dashboard that is impartial and not trying to sell them a product or service alongside providing information. The new Single Financial Guidance Body would be the right place for this. Subject to parliamentary approval, the SFGB should be up and running in a year's time. It will be the home for all pensions guidance, including Pension Wise. The dashboard would be a natural fit, in a place that consumers trust.

Is Pension Wise working? If not, how should it be reformed? Are there any implications for the proposed creation of a new single public financial guidance body?

The then government's original announcement on pension freedoms said that "everyone with defined contribution pension savings reaching pension age will get free and impartial guidance on their range of available choices at retirement".[5]

People who use Pension Wise value the service highly, but take up has been disappointing.

The Behavioural Insight Team's recent trials on increasing engagement with Pension Wise showed that the current wakeup packs provide so much information to customers that it makes it difficult for them to digest all of it[6]. As part of the work, LV= trialled a one-page 'pension passport'. The results have been encouraging. Recipients of the passport were much more likely to contact Pension Wise, and to consider retirement income options from other providers.

While it is important to raise awareness and encourage engagement, it is difficult to overcome many people's tendency to want to cash in their pension pots and 'take control' of their money. The Panel therefore supports 'default' guidance, whereby people are compelled to take advice or guidance before taking a decision on their pension unless they explicitly opt out. This would fulfil the previous government's pledge on universal guidance. The service should be impartial and sales-free, which suggests it should be provided by Pension Wise.

Are there persistent gaps in the advice and guidance market and what might fill them? Is automated advice and guidance filling gaps as expected?

Independent financial advice is often expensive. IFAs can make a good living out of people with relatively large amounts of money to invest, so have little incentive to develop more efficient, cheaper, advice models. The Financial Advice Market Review was intended to widen access to regulated advice. What it did instead was to open the door to 'execution only' sales masquerading as guidance.

While automated services have a role to play in widening access to investment products, there are clear risks to consumers if these services are not transparent and clearly communicated.

Few automated services offer regulated advice, many take the consumer through what looks like a fact find, but stop short of a personal recommendation. There is a risk this could mislead consumers into thinking they are getting regulated advice when they are not. Last year the Panel commissioned research into the consumer experience of using online investment services.[7] We found that many online firms failed to:

- Communicate clearly whether they were providing regulated advice or guidance;
- Disclose costs and charges in a way that allowed consumers to understand how much they would be paying and for what;

[4] https://www.abi.org.uk/globalassets/files/subject/public/lts/reconnecting-people-with-their-pensions-final-10-october-2017.pdf
[5] https://www.gov.uk/government/news/millions-guaranteed-the-right-to-free-and-impartial-guidance-on-their-new-pensions-choices
[6] http://www.behaviouralinsights.co.uk/publications/improving-engagement-with-pension-decisions-the-results-from-three-randomised-controlled-trials/
[7] https://www.fs-cp.org.uk/sites/default/files/final_panel_position_paper_online_investment_and_advice_services.pdf

- State clearly whether consumers would have recourse to the Financial Ombudsman Service (FOS) or the Financial Services Compensation Scheme (FSCS) should things go wrong;
- Use language that consumers understood.

Amongst other things, we recommended that the FCA should lead an industry and consumer working group to develop simpler, more consumer friendly, language to be used consistently across the online investment sector.

We have also recommended, in our response to the Financial Advice Market Review[8], that the FCA should label online investment services 'advised' or 'non-advised' so the appropriate descriptions of the service and right to redress can be clearly shown to customers.

Is there evidence of product market competition resulting in cheaper, clearer or a wider products for consumers? Are people switching from their pension provider in accessing their pots? Is an adequate annuity market being sustained?

No. While more consumers are entering drawdown or using other means of remaining invested in retirement, there has been a marked lack of product development and innovation since the government introduced pensions freedoms. In its Retirement Outcomes Review, the FCA observed that "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".

If anything, the market is murkier and the different options are difficult to compare. Research carried out by Which? in 2015 highlighted the amount of different charges investors could face when attempting to compare drawdown options, and the range of fees levied by providers.[9]

It has become clear too that few consumers are exercising their right to shop around for the most suitable drawdown options. The difficulty of comparing different products and charges is a contributing factor, as is the deep mistrust in the industry, highlighted in the FCA's Retirement Outcomes Review interim report.

Most consumers accessing their pensions without taking advice go down the 'path of least resistance'. ABI figures show that 94% of non-advised drawdown sales are made to existing customers, compared with 35% of advised sales. Research last year by Citizens Advice found that around 70% of people accessing their pension cash since freedoms took effect had not shopped around. This level of inertia means there is little competitive pressure on firms to offer good products at a fair price.

Meanwhile the annuity market is shrinking, with just seven providers offering annuities on the open market as of July 2017. Around half of annuities are bought from the existing provider[10], despite a significant difference between the lowest and the highest rates available.

The pension freedoms have been implemented during a period of stock market stability. Drawdown is now the preferred option at retirement, although this is likely to be by default. Annuity demand is down and the preferred option appears to be accessing tax free cash leaving the rest of the money in a drawdown product. Research suggests that some form of guaranteed income in retirement remains a priority for savers[11] and demand is likely to rise in the event of market volatility. As it stands, however, competition in the annuity market is thin on the ground, with consequences for pricing and quality of products. Ensuring that annuity purchasers shop around for the best deal available is therefore of crucial importance.

Are the Government and Financial Conduct Authority taking adequate steps to prevent scamming and mis-selling?

The joint HMT and DWP consultation on pension scams offers several strong proposals for combating scams, notably a 'cooling off' period[12]. We are also concerned about so-called 'early

[8] https://www.fs-cp.org.uk/sites/default/files/fscp_response_famr_guidance_consultation_on_non-advised_sales.pdf
[9] http://press.which.co.uk/whichpressreleases/revealed-the-true-cost-of-pension-freedom/
[10] https://www.moneymarketing.co.uk/annuitants-lose-765m-income-not-shopping-around/
[11] https://www2.deloitte.com/uk/en/pages/financial-services/articles/unlocking-at-retirement.html
[12] https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation

pension release' or 'pension liberation' schemes, which appear to be on the rise recently, perhaps because it is easy for consumers to be misled into thinking they are part of the pensions freedoms. Users of these schemes can face a tax bill of 55%, plus fees and charges, on any withdrawals. They are liable for tax even if they didn't realise they had broken the rules, and offer to reinstate the money. Although the FCA does have warnings about these schemes on its 'scamsmart' pages, we think these warnings need to be more widespread.

The Panel has argued that efforts to tackle fraud must go wider. Persuading people to transfer their money to a third party pretending to be their bank may not fall within the pension scam definition but requires urgent action. We also believe the FCA should go beyond fraud and scams to address the problem of creditors or debt collectors that seek to persuade people to cash in their pension pots to pay off debts.

The recently announced intention to ban cold-calling was welcome, but the proposed ban fails to go far enough. For instance, it doesn't cover cold call relating to investments, which leaves a loophole for pension fraudsters to exploit. Nor does it cover calls that originate from abroad, despite the ease of using this approach to get around the ban.

It should also cover cold calls by debt management companies, IVA/PTD firms, insolvency practitioners, and similar organisations that may cold call over 55s to 'explain' how they can use their pension pots to repay creditors and clear debts.

We have also called for an official list of investments that are permitted for inclusion within SIPPs, to deal with scams that persuade people to access their pension pots to take advantage of investment opportunities. There was such a list until it was scrapped in 2006 by HMRC, which means there is no easy way of advisers or investors making sure they are only investing in approved assets. We have suggested too that the FCA should consider a blanket ban on investment promotions and adverts that refer to a specific rate of return. Unrealistic levels of investment return are a common feature in promotions, both from regulated and unregulated firms. They serve no positive purpose and potentially lure consumers searching for yield.

Are the freedom and choice reforms part of a coherent retirement saving strategy? To what extent is it complementary to or undermined by other policies?

There is a disconnect between auto enrolment, which requires no engagement at all, and risks under-saving, and the complex choices people then have to take at age 55 and beyond.

Better information and guidance, through the pensions dashboard and Pension Wise, will help. An impartial comparison tool to enable consumers to compare the real costs and returns of different retirement options is also needed. But, as with other financial services markets, not everyone wants to spend their time analysing their options and shopping around. Default income retirement options may have a role to play, as may more sophisticated online guidance. As things stand, pension freedoms will not lead to more competition, just bad outcomes for a lot of people.

Yours faithfully

Sue Lewis
Chair, Financial Services Consumer Panel