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FCA retirement outcomes review – final report and consultation

Two years after it first launched its Retirement Outcomes Review (ROR), the FCA has published its final report (MS16/1.3) on the pensions retirement income market. The review assesses how the market is evolving following the introduction of pensions freedoms in April 2015; highlights emerging issues that might cause consumer harm; and recommends action to put the market on a good footing for the future.

As well as giving this comprehensive review, the FCA published a consultation paper (CP18/17) which proposed a remedy package to address potential consumer harm. The FCA is consulting on some of the remedies (for example wake-up packs) before laying out final rules in January next year. However, the FCA is looking for discursive feedback on other proposals (for example investment pathways), before issuing a second consultation paper in January 2019 on the detail, and the final rules in the summer 2019.

This factsheet summarises the FCA's finding of the retirement income market and its proposed remedies.

FCA's findings of the retirement income market

In general

Following the introduction of pensions freedoms, the FCA wanted to get a better picture of how the freedoms were being used, and where there was possible consumer detriment. The FCA review focuses primarily on consumers who do not take regulated advice (non-advised drawdown consumers) when taking their retirement income.

Not surprisingly, the FCA found many consumers welcome the pensions freedoms and the more varied options to access their pensions savings. Up to September 2017, over 1.5 million defined contribution (DC) pots have been accessed. Most (72%) consumers were younger than 65 when they accessed their pension. Over half (55%) of these pots were fully withdrawn, but most were small pots (88% were below £30,000), and nearly all (94%) of those consumers who fully withdrew their pot had other sources of retirement income.

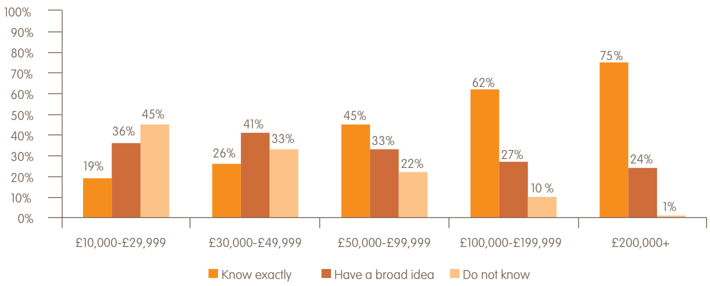
Twice as many pots have been used for drawdown than to buy an annuity, and a third (32%) were accessed without advice.

Investment choice

Overall, the FCA has concerns about the investment choices of, particularly, non-advised drawdown consumers. Its research showed that around one in three consumers who have gone into drawdown recently are unaware of where their money was invested.

However, as the graph below shows, people's awareness of their investment decisions increases in line with the size of the pot, suggesting those who receive regulated advice are more aware of their investment choices than those who are non-advised.

Awareness of where pension money is invested, by pot size

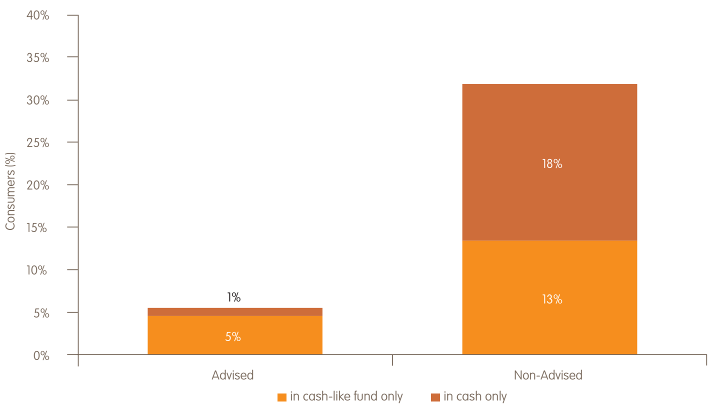


Source: Consumer research commissioned by the FCA, see annex 5.
Base: All who recall drawdown or took a lump sum (975)

Source: FCA MS16/1.3 Retirement Outcomes Review – final report

The FCA also found 32% of non-advised drawdown consumers are wholly holding cash, and stated that consumers in cash could get an income from their pot of up to 37% higher over 20 years by moving to a mix of assets rather than just cash. However, this is not so much an issue for consumers who receive regulated advice. The graph below demonstrates FCA research showing only 6% of advised consumers are wholly holding cash, compared to 32% of non-advised consumers.

Percentage of consumers in cash and cash-like investments across providers



Source: FCA analysis of drawdown charges and investment choices collected from 7 providers.

Source: FCA MS16/1.3 Retirement Outcomes Review – final report

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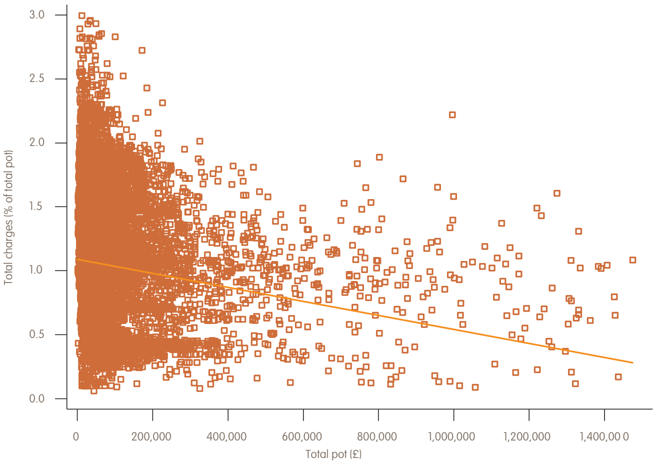
The FCA research backed up its concern that providers were defaulting consumers into cash or cash-like assets. The FCA believes this approach may be suited to consumers who are planning on withdrawing their pot over a short period, but not for someone planning to draw down their pot over a longer period.

Competition and charges

The FCA has concerns about the lack of competition in the non-advised drawdown market. It found a lack of shopping around; 94% of non-advised consumers who accessed drawdown stayed with their original provider compared to 35% of advised consumers.

It also had concerns about the level of charges paid by non-advised consumers. Its analysis found charges varied widely amongst the seven providers it surveyed. Average total drawdown charges ranged from 0.4% to 1.6%, and nearly a quarter of their non-advised consumers are paying 1.5% or more of their pots each year. The FCA believe the different types and number of charges make it difficult for people to compare across products.

Non-advised sales: annual total charges vs. toal pot, 1 May 2015 – 1 May 2017



Source: FCA analysis of drawdown charges and investment choices collected from 7 providers.

Note: We have calculated the total charges as the sum of annual administration charges as a percentage of the final pot (total amount invested in funds, assets and cash) and average OCF adjusted by the value invested by each consumer in each fund/asset.

Note: We have excluded consumers that are mainly investing in alternative forms of investments (e.g. property). We have excluded outliers.

Source: FCA MS16/1.3 Retirement Outcomes Review – final report

Proposed remedies

The FCA is proposing a selection of remedies. It is now consulting on changing its rules to introduce some of these proposals. But for others, it is more interested in receiving general feedback on the ideas. It wants to gather further evidence to work out how they can be applied to self-invested personal pensions (Sipps), before consulting on rules changes in January 2019.

The remedies the FCA is now consulting on changing the rules for are:

Changing wake-up packs

The FCA is proposing changing the rules for 'wake-up packs'.
It wants to:

- Send out the pack at age 50 – rather than at selected retirement age – and then every five years until consumers have fully crystallised their pension pot. It hopes this will encourage more consumers to think earlier about their retirement income needs.
- Include a single page summary document outlining the important information about the pension pot – including the contribution rate, current fund value, details about any guarantees, retirement age, statement for consumers to consider whether they are saving enough to meet their needs at retirement, and a statement about the availability of pension guidance.
- Still include a money advice factsheet (MAS), except for the wake-up pack sent at age 50 (as people cannot access their benefits at this age). The FCA wants to work with MAS to develop a more appropriate factsheet for the pack sent at this age.
- Replace the requirement to send a summary of open market options with need for pension schemes to separately disclose any other information to help consumers make an informed decision about their options for accessing pension savings
- Prevent the wake-up packs from including any marketing material, which extends the current requirement that the pack cannot include any pension application form.
- Introduce additional risk warnings alongside the 'wake-up' packs, which will be limited to one page only. Pension schemes can decide what risk warning to include, but the FCA will give guidance setting out the sorts of risk factors which should be considered. However, the FCA will insist that for the wake-up pack sent at age 55, there has to be a clear warning that accessing the pension fund at this stage may not be the best option for the consumer.
- Change the reminder requirements to include a clear and prominent recommendation that clients use the pensions guidance service and that appointments are available.

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Checking consumers have received guidance

The Financial Guidance and Claims Act 2018 – which was passed earlier this year – outlines that the FCA must make rules so personal pension schemes tell individuals how guidance can help them. Before proceeding with a request to flexibly access benefits, the pension scheme must make sure the individual has either received guidance or has opted out of doing so. The FCA will consult with the Single Financial Guidance Body (SFGB) once it comes into being (probably next winter) about how this rule can be met.

Annuity information prompt

The FCA wants to change the annuity information prompts to, amongst other things, ask consumers questions to determine whether they are potentially eligible to buy an enhanced annuity.

Key features information

To help consumers shop around and compare their drawdown solution, the FCA is proposing the key features information:

- Includes a key front-page summary of information.
- Includes a one-year charge figure in pounds and pence on the front page, as well as retaining the reduction in yield (RIY) figure.
- Takes inflation into account so figures are only on a 'real' basis (rather than a 'nominal' basis).
- Is given to a consumer using an existing contract to move funds into drawdown or take an income for the first time (including an uncrystallised funds pension lump sum (UFPLS) payment.

Drawdown annual statements

The FCA want to make sure every drawdown consumer receives an annual statement, even those who only take tax-free cash and no income. It also wants to make sure existing consumers have information and support. So, it's proposing annual statements in future will include a reminder of the investment pathway (see below) the consumer has chosen and their ability to switch to a more appropriate investment pathway.

The remedies the FCA is seeking general feedback on are:

Investment pathways

The FCA believes drawdown providers should offer non-advised consumers three ready-made drawdown investment solutions. These investment pathways are intended to be broadly appropriate for consumers with straightforward needs reflecting standard consumer objectives. They are intended to serve as a mass-market offering, not as an optimal solution for consumers in every circumstance. The FCA doesn't propose it will be prescriptive around the investment solutions the pathways will comprise. However, each investment pathway should have a description and a risk profile which is clearly communicated alongside the objective of the pathway.

It wants industry feedback on this proposal. If – and once – the investment pathways have been set, then it will consider what the 'right' price is for the pathway. It will then, a year after implementation, review the investment pathways, including what providers charge for them. If it sees any 'problems' arising then it's highly likely it will introduce a charge cap.

The proposal is aimed at non-advised drawdown consumers only. However, the FCA is asking for feedback on whether investment pathways should also be made available to advised consumers if the adviser wants to take that route.

Cash must be an active choice

The FCA is proposing that providers cannot default non-advised drawdown consumers into cash or cash-like investments if they have more than a de minimis limit of, say, £30,000. Instead, these consumers will have to make an active choice to be invested in cash. If they do, then the FCA wants providers to give simple generic warnings to the consumer before they transact. The FCA is also expecting providers to develop a strategy for those consumers who have already been defaulted into cash, as well as giving warnings to consumers who are invested in cash for more than a year.

Actual charges

The FCA is proposing requiring firms to disclose actual charges paid by consumers in drawdown on an annual basis. The figure should include any charge that has been levied against the consumer's drawdown pot – including transaction costs. The FCA is asking for feedback on how this would best be achieved.

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FCA implementation timetable

The pensions and retirement income market is an important priority for the FCA. It is keen to address the issues it has identified in the Retirement Outcomes Review.

The FCA is asking for feedback on its consultation paper CP18/17. Some of the areas it covers are 'discussion questions' where the answers it receives will shape a second consultation paper. These areas are investment pathways, cash defaults, and actual charges information.

The other proposed remedies are 'consultation questions' and the feedback the FCA receives will shape the final rules on these areas (for example wake-up packs).

The tables below shows the FCA's planned implementation:

'Discussion questions' – investment pathways, cash defaults, and actual charges information	
Deadline for comments	9 August 2018
Potential testing of aspects of investment pathways	Complete by November 2018
Publish feedback and second consultation paper	January 2019
Deadline for responses on second consultation paper	March 2019

'Consultation questions' – all other remedies (eg wake-up packs)	
Deadline for comments	6 September 2018
Publish feedback and first policy statement	January 2019

If you only read one thing read this:

- The FCA has published its final report in its Retirement Outcomes Review. It has found that most people who accessed their pension pots were younger than 65. That over half of the pots accessed were fully withdrawn, but these were small pots and were accessed by those who had other sources of retirement income.
- A third of drawdown pots were accessed without advice. The FCA is concerned non-advised consumers are generally not aware in what investments their funds are held. It is also worried that too many non-advised consumers are invested wholly in cash. And that non-advised consumers are not shopping around for the best drawdown solution and therefore paying too high charges.
- The FCA is suggesting a host of remedies. It is now consulting on the rule changes needed to introduce some of these. It wants to send wake-up packs out at age 50, and every five years after that. It also wants to change the content of the wake-up packs to include a single page of key information.
- It wants to change the key features information to include a clearer summary, and to include the first year's charges in pounds and pence. The FCA also proposes changing the rules so a drawdown annual statement has to be sent out to all drawdown consumers, even if they are not taking any income.
- The FCA wants feedback from the industry on some other proposals. These include requiring each pension scheme to offer non-advised consumers three investment pathways, linked to clear objectives. It also wants to stop non-advised consumers being automatically defaulted into a wholly cash investment. And it is considering whether it can introduce a requirement that the annual drawdown statement includes total actual charges (including transaction costs) in pounds and pence for the year.
- The FCA has published a timetable to take forward these actions. Some final rules will be published in January 2019. For other proposals – investment pathways, banning default into cash, and showing actual charges – the FCA expects to publish final rules next July, meaning a final implementation date of probably winter 2019/2020.

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