TISA Response to

Retirement Outcomes Review Interim Report

September 2017

About TISA

TISA is a unique, consumer focused membership organisation. Our aim is to improve the financial wellbeing of UK consumers by aligning the interests of people, the financial services industry and the UK economy. We achieve this by delivering innovative, evidence based proposals to government, policy makers and regulators.

TISA's growing membership comprises over 160 firms involved in the supply and distribution of savings and investment products and services. These members represent all sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, FinTech, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Current themes of TISA policy work include:

- Brexit: developing proposals for government that will enable the savings and investments sector to prosper on a global scale
- Digitalisation: a digital identity for consumers of financial services, innovation, standards and data responsibilities
- ISA's: LISA, simplification of the regime
- Retirement saving: the Auto Enrolment review, self-employed and pension tax relief
- Housing: the use of property to supplement retirement income
- Guidance: developing a framework and services to make guidance more widely available
- Education: supporting the education of young people to make them aware of the impact of finance on their life.

TISA also provides support on a range of operational and technical issues targeted at improving infrastructure and processes, standards of good practice and the interpretation and implementation of new rules and regulations. TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve industry effectiveness by reducing cost and risk and to enhance customer outcomes. This work currently includes: MiFID II, CASS, the UK Fund Settlement initiative and Payments Strategy Forum. TISA Exchange (TeX) is providing a model for transfers and re-registrations.

Summary

TISA welcomes the opportunity to provide a response to the FCA's Retirement Outcomes Review Interim Report.

We are broadly in support of the measures proposed in response to the findings within the report. The report doesn't frame the market that would be created with the introduction of these proposed changes. A consumer-led competitive market should have appropriate protections in place, particularly to cater for those consumers who do not have sufficient knowledge or confidence to make decisions and are therefore vulnerable customers.

We need to be mindful that intervention does not create negative outcomes for consumers – either real or perceived. There is more that can currently be done to provide increased protections in the decumulation space, however this needs to be balanced against the resulting impacts. Consumers should be provided with relevant information and guidance throughout the accumulation lifecycle. In the years preceding minimum retirement age, these should provide general details about retirement options and signpost where to go for guidance or advice. This would provide consumers with sufficient time to consider their retirement strategy and take appropriate action. It should also remove the need for intervention just prior to access - this can cause delays and frustration as decisions have already been made at this point. Communications in this period such as risk warnings are therefore largely ineffective and are perceived as another unnecessary barrier to navigate.

From an over-arching perspective, the fundamental point to consider is the perception that consumers have of the pensions industry. Some of this may be warranted - as an industry we have been subject to continual change in recent years and a sustained period of consistency is needed to help restore confidence and enable consumers to save with certainty. It is hard to promote successful engagement campaigns and product innovation when fundamentally the target audience does not have confidence in the framework.

From a comparison perspective, whilst pensions provide a tax efficient wrapper, we are aware that other savings vehicles are being used as an alternative to a pension, once minimum retirement age has been reached. It is important consumers are able to identify the potential consequences of moving pension funds to an alternative wrapper or savings vehicle. This needs to be backed up with further education, which is a known area we need to address.

And finally, we need to allow realistic timescales for product innovation to evolve. As the freedoms become firmly embedded and future reviews and research such as this identify longer term retirement behaviours, we will see progress in this area.

Consultation questions and response

Question 1

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?

We broadly agree with the findings set out in the report. The area of 'mistrust' is concerning and clearly has a fundamental impact on consumer behaviour from age 55. A quoted perception for withdrawal is that the money is 'doing nothing' in the pension pot. Yet consumers will withdraw the pot in full and move it into a bank account, where interest is minimal (if anything), and the real rate of return is likely to be negative. Despite the 2008 banking crisis, consumers have higher levels of trust in banks than pension providers.

Collectively, we are clearly not doing enough in terms of promoting pensions in the right way and raising awareness and knowledge. The industry, regulators and government need to collaboratively address these issues.

Question 2

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**

The pension freedoms were introduced without prior industry consultation and provided challenging timelines. Given this and the findings of the review, it is appropriate for a measured level of intervention to be undertaken at this time. Most importantly, changes must not create unnecessary obstacles for consumers and need to provide the right balance between protection and enhanced consumer outcomes.

Question 3

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?**
- **Should a charge cap also be considered for default investment pathways?**
- **Should the role of IGCs be extended to decumulation products?**
- **Do you agree with the decision not to pursue the option of introducing an appropriateness test for non-advised drawdown at this stage?**

For many, Drawdown is used purely as a means to access tax free cash. Some will not even be aware that they need to make investment choices post crystallisation and at the other end of the spectrum, you have bespoke SIPP investors (or their IFAs) who will possess the knowledge to invest according to circumstance.

Investment defaults exist for accumulation. Bearing in mind the investment risks associated with Drawdown, we agree that default investment pathways would be a positive move and provide a level of protection to consumers. Especially taking into account the increasing number of retirees we shall see from workplace schemes in the coming years.

It is worth considering having different defaults depending on the combination chosen of tax free cash and income e.g. if tax free cash is taken in isolation then the consumer is defaulted into fund A and if tax free cash and a regular income is established they are defaulted into fund B. If the member needs to select a fund, we need to be mindful that this should not be classed as a default and the benefit of an inertia approach is lost.

We agree that a charge cap should be considered for the default investment pathways given that these exist for default funds in accumulation products. As associated Drawdown costs are higher than for accumulation, the cap may need to be higher than 0.75%.

IGCs were established to address the buy-side weakness of employers choosing products. There is no systemic issue in retirement. We have seen the effectiveness of IGCs within the industry and some will already provide a general unofficial level of oversight of associated decumulation products. It is important that any increase in the obligations of IGCs into decumulation would not act as a deterrent to these committees, as the governance of retirement is far more challenging than accumulation.

We believe the success of changes implemented as a result of this initial Retirement Outcomes Review should be measured to see if there is a clear need for IGCs. If, at this time, there is a perceived need then it will be easier to define exactly what their role and responsibilities should be.

Whilst an appropriate test would offer an element of protection, it may be perceived as an additional barrier in stopping or delaying consumers accessing their own money. This would provide added weight to the current perception of mistrust. Should any form of test be implemented now or in the future, it should not be onerous and the outcome should not prevent access. The results should provide a guide to where the shortfall in knowledge lies and provide methods as to how this can be obtained.

Question 4
Do you believe the market can deliver ‘decoupling’ without regulatory intervention?

We do not believe this could be done without regulatory intervention. The withdrawal of a Pension Commencement Lump Sum must be linked to an arising pension entitlement which will not exist should ‘decoupling’ occur.

And if partial ‘decoupling’ occurs, it becomes complicated to track the remaining entitlement once growth and capital events take place. It then becomes an additional complication that consumers may experience.

More focus should be given to the treatment of consumers who are accessing Drawdown, particularly for those only accessing their tax-free cash. We have already confirmed above that we believe default investment pathways should be introduced, with a potential specific default to cater for this scenario.

Question 5
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?**
- **What are your views on the benefits and costs of mandating the use of a summary cost metric in customer's communications?**
- **Do you agree with the decision not to pursue the alternative measures at this stage?**

Whilst it is clear that consumers are currently taking the path of least resistance, there is no evidence to suggest that they could achieve better outcomes by transferring. The various components attached to Drawdown make a comparison challenging. If you only include certain elements, a person may make a choice not factoring in other elements which may be more significant to them.

There is a wider picture to consider here – we have seen evidence of consumers accessing pots in full to invest in deemed 'safer products'. We need to consider that if a comparison is to take place using an agreed set of metrics including for instance charges per £10,000, we should also be looking to enable a comparison between different savings vehicles to be undertaken.

A related issue surrounds the rules concerning Block Transfers. These are complicated and restrict individuals who hold a protected retirement age or scheme specific tax-free cash from transferring to an alternative provider to access their pot flexibly. And if they are able to find a 'transfer buddy' and transfer into an arrangement which is under 12 months old, benefits must be taken in full in order to retain the protection i.e. no partial crystallisation can take place. A six-month suspension was put in place following freedoms and it is now appropriate to remove these requirements altogether, so members are free to transfer and access benefits in the way that they choose.

Question 6
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?**
- **Explore the feasibility of introducing tools that compare different products and options?**
- **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?**

We do agree that the rules surrounding timings and content of communications need to be changed to improve consumer outcomes. Wake-up packs consist of multiple pages which will not engage the consumer. The rules for content need to be reviewed to ensure that the regulatory requirement can be met and providers can issue packs which provide concise and clear information using everyday language.

The current timings of the wake-up packs do not allow sufficient time for consumers to start considering their retirement - decisions are often already made by the time these communications are received. We know this is no longer the cliff-edge decision that it once was and a phased approach can last for several years.

In order to make consumers aware that the option to access funds is approaching, a warm-up pack should be sent to all members in the preceding years to minimum retirement age. This should not be too detailed but needs to provide sufficient information to prompt the consumer to start considering when and what they plan to do with their pension funds and signpost where to go for guidance or advice. Follow-up letters should be sent prior to minimum and selected retirement ages also with the relevant signposting, enabling further awareness and consideration to take place before retirement is reached.

We could go one stage further and look for Government to issue a free holistic financial health check notification to everyone at age 50 via 'Verify'. This could provide access to a free one-off consultation with an independent body. It is not dissimilar to the age 40 free NHS health check currently in place.

We have responded to the comparison of different products in question 5.

Communications about enhanced annuities could be included in the warm and wake-up letters.

Question 7
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?**

We agree that intervention is not necessary at this stage. We need to allow time for the market to develop following the challenge of meeting regulatory and system requirements relating to pension freedoms.