TISA Response to:

CP18/17 - Retirement Outcomes Review: Proposed changes to our rules and guidance (Q34-46)

Author:

Renny Biggins
Retirement Policy Manager
renny.biggins@tisa.uk.com
07802 324962

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; the proposals provide practical solutions to major consumer issues.

TISA's growing membership comprises over 190 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 the UK's major investment managers, retail banks, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTech, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

TISA's current strategic policy and industry solution developments include:

- **Guidance**: developing a framework to make guidance more widely available to the estimated 42 million UK citizens who will rely on it when making financial decisions
- **Digital ID:** development of a digital identity for consumers of financial services: following successful earlier feasibility work, a project with members has now been established to develop and test a pilot of the Digital ID.
- **Digitalisation**: building on the successful launch of TeX, TISA has initiated a range of member projects developing open standards that support the growth of FinTech and increase consumer access to financial services, while lowering costs for providers.
- **Financial education**: helping to make young people aware of the impact of finance on their life including the KickStart Money project – a £1million three-year programme delivering financial education to 18,000 primary school children.
- **Retirement saving**: strategic policy focused on the needs of millennials and the self-employed and the use of property to supplement retirement income.
- **ISAs**: working with government, the simplification/improvement of this key savings regime
- **The TISA and KPMG Savings Index:** a biannual measure of typical household savings and debt in Great Britain.
- **Consumer engagement:** alongside our financial education and guidance work, we are also considering how the industry can improve how they identify and interact with vulnerable customers, and encourage greater financial capability for UK consumers.

TISA also provides support on a range of operational and technical issues targeted at improving processes, standards of good practice and open standards, alongside the interpretation and implementation of new rules and regulations, including MiFID II (through publication of good practice guides and open standards, and an industry solution to the collection of target market data and costs & charges); Client Assets (publishing good practice guides and working on unbreakable term deposits; tackling financial crime, data standards, SM&CR and GDPR; and Brexit, by developing proposals for government that will enable the savings and investments sector to prosper on a global scale to the benefit of UK plc.

Our work to improve industry infrastructure includes TeX, (an industry utility providing the legal framework and governance necessary for the use of electronic messages facilitating transfers) alongside support for the Transfers & Re-registration Industry Group (TRIG) and support for the UK Fund Trading and Settlement initiative (FTS).

Summary

We support the principles of the proposals which are contained within Q34 - 46.

A fundamental objective of these proposals is to simplify communications, make them timelier and promote engagement with the retirement journey, financial advice and guidance. To achieve this, there is an overarching requirement for consistency. A uniform industry approach to these communications enables consumers to build up knowledge and confidence more easily, which in turn may translate into higher levels of engagement.

The communication channel can be as important as the content, so it is essential that requirements can be met by allowing these to be sent through the consumers preferred medium.

With the advent of Auto Enrolment, we now see significant money invested in DC schemes regulated by FCA and TPR. Whilst the paths to achieving legislative change is different for each, it is important that members of all impacted schemes benefit from the proposed changes simultaneously - some consumers will have pension pots which span across both sets of regulation. The importance of this particular alignment demonstrates the need for FCA and TPR to have a joined-up approach in the development of policies. We welcome the intentions for this strategic collaboration which reflects the changing pensions landscape and look forward to seeing the benefits that this can bring to industry and the underlying consumer.

For completeness, please find below the summary from the response sent in respect of questions which had a deadline of 9th August.

TISA welcomes the opportunity to provide a response to the Financial Conduct Authority's CP18/17, where changes to rules and guidance are proposed with a view to enhancing retirement outcomes for consumers.

We broadly support these proposals and believe they will help create better outcomes for many who enter into retirement with their accrued pension funds on a non-advised basis.

More generally, the Retirement Outcomes Review has been wide ranging but largely seems tactical in nature, focusing on a number of specific areas where concerns have been raised or particular trends have emerged since the introduction of pension freedoms in 2015.

The pension freedoms, whilst seen as a positive move by much of the industry including TISA, has created a myriad of choice for consumers who are approaching retirement. While it is important for firms to have processes in place which provide an element of protection to those who are disengaged and/or non-advised, the proposals contained within the consultation can only go so far and consumers remain exposed to various risks.

We understand the importance of establishing a balance where options are kept broadly at a high level and simple, to aid both understanding and engagement versus providing a more comprehensive set of choices which may have the opposite effect. And of course, there are also implementation practicalities to consider for pension schemes and administrators.

The pensions landscape has changed significantly since 2015 and in order for consumers to make the most of their retirement opportunities (both in accumulation and decumulation), it is essential that a strategic support framework is put in place to get advice or help in making informed financial decisions. While the option to seek regulated advice is available, this can be expensive and we need to develop an infrastructure which supports the mass market and not just the wealthy.

TISA and its members are seeking to address this financial guidance gap and are looking to work with government and the regulators to build a comprehensive guidance framework that enables regulated financial services firms to provide personalised financial guidance. Ideally, consumers can access similar financial guidance from both regulated financial service providers and the Single Financial Guidance Body. Leveraging the experience, technology and client relationships that regulated financial services firms have with consumers enables the provision of guidance at scale, which can promote engagement and provide knowledge right through the pension journey and not just when approaching retirement, where typically it is too late to make changes which have any significant impact.

Achieving this goal requires greater definition and flexibility in the current rules around guidance, a framework of scope and standards to ensure appropriate guidance and co-operation with the SFGB to ensure consistency across the guidance services so that consumers have broadly the same experience, terminology and outcomes regardless of going to industry or the SFGB. This will provide much greater access to consumers across their whole financial management life journey as well as at the point that they need to make decisions related to this consultation.

Consultation questions and response

Question 34

Do you agree with our proposals on 'wake-up' packs? If not, how should we change them?

In terms of the timings, we agree with the concept of sending out a wake-up communication at age 50 and every five-years thereafter until all benefits within the arrangement(s) have been exhausted. Given that by age 50, a consumer may have accrued multiple pension pots with different providers, we need to be careful that they are not flooded with a barrage of paperwork at these trigger points that cannot be easily compared. This may have an adverse effect and lead to further disengagement in some circumstances. This leads us onto the communications themselves.

In terms of content then we agree that at age 50, a single page summary to prompt some engagement with future considerations of retirement seems appropriate. However, consumers need guidance not only once they are able to access benefits but also in the years preceding this. As free impartial guidance is available to consumers from age 50 onwards through Pension Wise, we believe there should be a MAS communication in the age 50 statement signposting this service should they wish to start considering their future retirement. A consumer may still be 15 years or more from retirement at age 50 and some guidance at this stage could play a significant part in enhancing future retirement benefits. Should the opportunity arise for consumers to access a central Pensions Dashboard in the future, this should also be signposted.

It is important that wake-up communications at 50 and thereafter do have consistency in the information that is contained and the way in which it is presented. Consumers need to understand these communications and a uniform industry approach to content will assist in this regard. If requirements are not prescriptive enough, then this adds to the complexity of interpreting the data, which in turn will lead to greater levels of disengagement.

The channel of communication is also significant. Where a consumer has elected for an electronic preference such as through a member portal or e-mail, then it should be possible to meet the requirement by sending out communications through these mediums. It is likely to have a greater impact than sending it in the post.

Question 35

Do you agree with our proposal to mandate specific retirement risk warnings alongside 'wake-up' packs? If not, how should we change it?

We agree with the principle of mandating a generic set of risk warnings, however the onus should not be placed on the scheme for determining what these might be. As the timing of wake-up communications are to be aligned across schemes for any given consumer, receiving multiple communications each containing their own specific set of risk warnings will be confusing and is likely to lose the impact they are intended to have.

4.39 states that firms can create risk warnings based on the information that they hold for their underlying client. The issues this creates are that information could be incorrect or out of date and different firms will collect different amounts of information. A workplace pension scheme for instance may collect the barest minimum required to establish the arrangement for the employee whereas individual arrangements such as SIPPS may collect and update an increased level of personal data on a more regular basis. A consumer could therefore receive different risk warnings from schemes even where the individual arrangements could be almost identical in terms of fund value, underlying investments and selected retirement age.

Crucially, we need to bear in mind that we are trying to simplify the messages contained within communications, so the consumer can understand what they are reading and become more engaged in the whole retirement journey. Consistency again is what we should be aiming for with risk warnings, which should be sufficient in content to prompt the consumer to consider taking financial advice or seeking guidance. We believe the FCA should define the risk warnings and mandate the circumstances in which these must be given.

Question 36

Do you have any further comments on our proposals for retirement risk warnings?

Nothing further to add.

Question 37

Do you have any comments on our proposals for the reminder?

We believe the reminder should adopt an industry prescribed format so there can be no ambiguity about the guidance options that are available to a consumer.

Question 38

Do you agree with our proposal to require firms to ask consumers questions that will help a consumer determine whether he or she is entitled to an enhanced annuity?

Yes, we agree with the proposal, although consumers should not be obliged to answer all questions. It should be made clear however, that it may be in their best interest to do so in order to potentially benefit from an increased enhanced annuity rate.

Question 39

Do you agree with our proposal to require that firms include information about the consumer's potential eligibility for an enhanced annuity in the quote for comparison?

Yes, we agree with this proposal.

Question 40

Do you agree with our proposal for amending the annuity information prompt requirements for income driven quotes? If not, how would you suggest we amend the information prompt to achieve our policy objective?

Yes, we agree with the proposed amendments, which would enable consumers to make a more informed comparison than they can today.

Question 41 - 46

Do you agree that key information should be summarised on the front page of KFIs?

Do you agree that the summary information should show a one-year single charge figure expressed as a cash amount?

Do you agree that information in KFIs should be presented in real terms (that takes account of inflation)?

Do you agree that a KFI should be provided when a client is accessing drawdown as an option or variation under an existing contract or UFPLS option under an existing contract, and also the first time they take an income (where this happens later)?

Do you agree that firms should provide regular client communications for those who have withdrawn tax free cash but not taken an income?

Do you agree that firms should regularly remind consumers to consider reviewing their decisions, particularly investment choices, rather than reminding them how to obtain advice?

There is a lot of work which needs to be undertaken within the industry on illustrations. As has been a recurring theme in this response, consistency is the overarching aim, to enable comparisons to be made on a truly ‘like for like’ basis and to display the information in a way which a consumer can understand, irrespective of which provider it has been sent from.

All the underlying work involving illustration triggers and content should form part of this wider industry wide illustrations review.