Improving Retirement Outcomes

Following the introduction of Pension Freedoms in the UK in 2015, the Financial Conduct Authority (FCA) launched their Retirement Outcomes Review. The purpose of the Review was to investigate retiree decisions upon entering retirement, and their outcomes so far, in the new pensions landscape. The Review has involved the gathering of data on the choices made by retirees in accessing their pension pots and the FCA has used this information to guide their regulatory agenda. One area where they have focussed their attention is on those who access their pots without professional advice.

The latest guidance on 24th of January 2019 has taken the form of a policy statement (PS19/1) which outlines requirements that pension providers will need to put in place over the next year and a consultation paper (CP19/5) which looks at some further proposals.

‘Wake-up’ packs

The FCA has issued the requirement[1] that consumers are sent ‘wake-up’ packs now starting from age 50, to coincide with the age at which they can access guidance provided by Pension Wise[2] (on 6th April becoming a part of the newly formed Money and Pensions Service). These packs will be issued every five years until individuals fully crystallise their pension funds. The packs will include:

- the Money and Pensions Service’s fact sheet ‘Your pension: it’s time to choose’;
- a single page summary document, including a clear and prominent statement about the availability of guidance from the Money and Pensions Service; and
- additional retirement risk warnings alongside ‘wake-up’ packs.

It is stipulated that packs cannot include an application form for any product.

It is the intention that these packs will lead to better prepared retirees who are aware of the range of options on the market so that they can make informed retirement choices.

Improved guidance for providing information on enhanced annuities

The FCA is concerned that many retirees are missing out on the potential for a significantly higher level of annuity income if they have a lifestyle or medical conditions that reduce their life expectancy. They have therefore issued guidance on the information to be provided around annuities and enhanced annuities.

39%-48% of standard annuitants are missing out on enhanced annuities due to lack of information[3]

The FCA will require[1] firms to:

- ask those consumers who express an interest in buying an annuity for sufficient information to decide whether they are potentially eligible to buy an enhanced annuity or not;
- use the enhanced annuity information, where relevant, to generate a market-leading annuity quote; and

- include the best open market offering quote for annuity rates, including on an enhanced basis, where relevant.

The FCA's intention with these changes is to increase market competition by decreasing the proportion of eligible customers missing out on a higher retirement income whilst also helping them to obtain the best rates.

The improved guidance for providing quotes for enhanced annuities and 'Wake-up' packs are all changes detailed in policy statement (PS19/1), and amendments to the FCA's Conduct of Business Sourcebook were made on 1st March 2019. Firms need to have implemented these changes by 1st November 2019.

Clearer charges for drawdown products

The FCA enforces the requirement[1] to include an improved Key Features Illustration (KFI) to customers entering and staying in drawdown, or taking an income for the first time including uncrystallised funds pension lump sum payments. The revised KFI should:

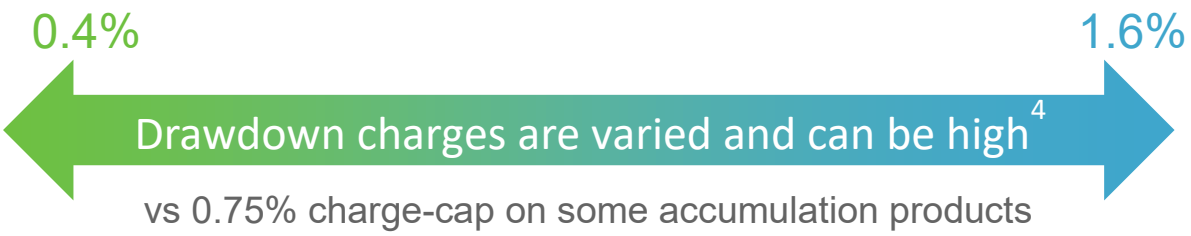
- illustrate the most important details on its front page;
- state the annual charges clearly in a single pounds and pence figure;
- adjust figures for inflation, where this is necessary;
- be provided to customers changing from their current drawdown product or accessing their pot in drawdown for the first time; and
- state on the summary page the age at which the customer's pot value is expected to reach zero, where this is relevant.

Additionally, those who have taken an initial withdrawal but no regular income should be notified that they may need to reconsider their pension decisions to check whether their current product is right for them.

Drawdown charges can also be complex, some policies have as many as 44 charges linked to them[4]

With clearer information on the costs of drawdown, we are likely to see more customers seeking out the best deal and the frequency of provider switches should also increase. This in turn may raise the competitiveness in the market, and perhaps we will see new innovations in this space as providers compete for market share.

The rules on clearer charges for drawdown products were also set out in PS19/1 and providers have until 6th April 2020 to ensure that they are complying with this area of regulation.



Investment pathways

As part of a recent consultation paper (CP19/5), the FCA has proposed what they call 'Investment Pathways'. These are designed to simplify the options presented to customers with respect to investing their drawdown pots. It seeks to do this by describing investment strategies in terms of objectives in retirement.

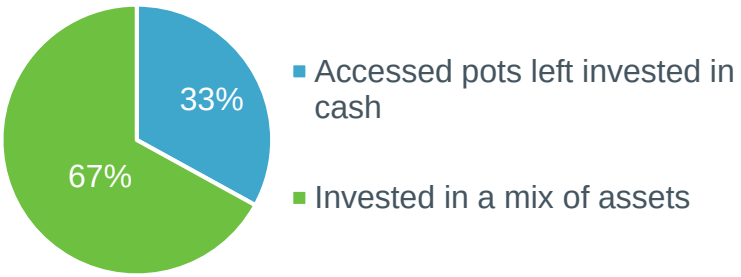
32% of drawdown pot accessed was non-advised vs just 5% before pensions freedoms[5]

The FCA is now consulting on their proposal, which lays out a process by which providers can ensure their customers are getting exactly the level of guidance they're looking for. If the customer is looking for guidance on the investment choices they can make once their pot is in drawdown, they should be asked which of the four following objectives best describes their needs:

- I have no plans to touch my money in the next 5 years;
- I plan to use my money to set up a guaranteed income (annuity) within the next 5 years;
- I plan to start taking my money as a long-term income within the next 5 years; or
- I plan to take out all my money within the next 5 years.

The FCA also propose that providers then have only one investment solution for each investment pathway objective, giving further clarity to consumers on what choice to make.

Investment pathways aim to improve the medium to long-term outlook for drawdown consumer income, based on their individual needs and intentions moving into retirement.



Source: FCA Retirement Income Market Data March 2018

Those invested wholly in cash could increase income in retirement 37% by moving investments into mixed assets[4]*

Clearly the FCA proposals will require additional work from insurers. However, providers could potentially capture a larger share of the market by solving the issues of communication to their customers about product features and the retirement outcomes they could produce. It is our belief that providers must innovate within their current offerings, as well as the tools used by advisers and customers to access their pension pots at (and indeed during) retirement to succeed in this market.

Hymans Robertson has a wealth of knowledge and experience in product development, the retirement market and drawdown. Our consultants would be delighted to support you in making the legislative changes and/or reviewing your retirement propositions. If you would like more information or advice, please get in touch.

Notes:

[1] – Handbook Notice 63

[2] – Government self-service pensions guidance tool

[3] – Thematic Review of Annuity Sales Practices (TR16/7)

[4] – Retirement Outcomes Review Final Report (MS16/1.3)

[4*]- As above. FCA assumed an asset mix of 50% equities, 20% govt. bonds, 20% corporate bonds, 7% property and 3% cash. For a consumer with a pot of £100,000 this would be an extra £1,500 per year. See Chapter 4 of the report for further details.

[5]- FCA Retirement Income Market Data 2018