



**OUR RESPONSE TO:**

**FCA MARKET STUDY MS14/3.2**

**RETIREMENT INCOME MARKET STUDY:  
INTERIM REPORT**

**Provisional findings and proposed remedies**

**30 January 2015**

## **Introduction**

The Royal London Group is pleased to respond to the provisional findings and proposed remedies coming out of the Retirement Income Market Study conducted by the FCA.

## **About the Royal London Group**

Royal London is the largest mutual life, pensions and investment company in the UK with Group funds under management of £78.4 billion. Group businesses serve around 5.3 million customers and employ 2,823 people (figures quoted are as at 30 September 2014).

The Royal London Group's specialist businesses provide pensions, protection and investment products. These products are predominantly sold through intermediaries however we also provide a direct to customer proposition.

## **Our response**

Our response is made up of three parts:

1. Our general view
2. Responses to the specific questions
3. Responses to the additional questions

## 1. Our general view

We welcome publication of the FCA's Retirement Income Market Study.

We generally agree with the provisional findings of the market study that the retirement income market has not worked well for consumers, especially around annuities. The position will become more complex in April when the retirement freedoms come into effect unless relevant safeguards are put in place.

We believe the proposed remedies may assist in addressing some of the issues identified but it is questionable how effective they are likely to be. They may create greater customer awareness around retirement however that on its own is unlikely to lead to greater customer engagement and changes in customer behaviour.

Customers need to be led through the retirement journey, rather than simply being told what they should do, to ensure that they receive the best solution for their needs. The proposed remedies don't go far enough in making this happen. They need to be supplemented by affordable financial advice or an enhanced Pensions Wise guidance service that can give individuals a recommendation.

The retirement changes coming in from April are significant. They need to be well monitored so evidence of poor customer outcomes or unintended consequences of the reforms are quickly identified and resolved.

## **2. Responses to the specific questions**

### **2.1 Quote Comparisons**

**We propose to require firms make it clear to consumers how their quote compares relative to other providers operating on the open market.**

#### **1A: Whether the proposal could contribute to addressing the concerns we have identified?**

The proposal could increase customer awareness of the open market option and the need to shop around. It would highlight to the customer that better annuity rates are available in the market but this on its own is unlikely to change customer behaviour.

Many customers will continue to view switching provider as an unnecessary hassle with little to be gained from it. Others will have been happy with their pension plan and choose to remain with that provider for their annuity. The annuity quote comparison would need to show the financial benefits to be gained from changing provider in such a compelling manner that resonates well with customers for them to exercise the option.

We support the concept of compulsory comparisons by providers to the external market but consensus would need to be reached on the range of quotes that would be sufficient. A more appropriate delivery mechanism would be an annuity bureau with sufficient market coverage which could provide real time rates compared to the MAS service.

Many customers have guaranteed annuity rates (GARs) which are valuable when they are taken at specific times and in specified formats. Thought needs to be put into how these GARs are treated in such comparisons which may add no value.

#### **1B: How could the proposal be best implemented, and/or how could practical issues be resolved?**

The proposal would be best implemented by the FCA prescribing a standard method for producing the quote comparison and detailing the comparison information providers need to give to the customer. This would ensure a

consistent approach is taken across the industry and avoid providers using a particular comparison system simply because it shows them in a good light.

The MAS website could be used for producing the annuity quote comparison but it has significant limitations. The site is overly simplistic. Annuities are, and will increasingly become, individually underwritten. The MAS site potentially risks understating the additional financial benefits that may be available to a customer from shopping around.

As mentioned above in our response to 1A, we believe an annuity bureau with sufficient market coverage could provide a proportional and cost effective solution, but guaranteed annuity rates need to be considered carefully.

### **1C: What information could be feasibly provided over the phone and in writing?**

It should be possible to obtain all the information needed for the annuity quote comparison over the phone or in writing. It may require a follow up with the customer if information is missing or they don't have it to hand at the time.

Customers should be able to provide information about themselves relatively easily. Information about their spouse or partner may be more problematic depending on the level of detail needed but should be encouraged.

Some customers may not be willing to provide a lot of information or sensitive health information for an annuity quote comparison unless they are able to take out the annuity on the back of the comparison.

Customers' ability to provide details of guaranteed annuity rates either in writing or by phone may be a significant issue. Such rates are often complex in nature as to when they do and do not apply and the rate at which they apply.

### **1D: How the proposal could be applied to other retirement income products, for example income drawdown?**

There is no straight forward way of comparing other retirement income products which tend to be compared on the basis of overall proposition,

rather than simply price. Overall proposition consists of a range of aspects including investment, service, charges, features and other value add benefits. Customers need to be able to decide what is important to them in meeting their needs and be told how to compare.

## **2.2 Framing Effects**

**We recommend to both the pensions guidance service and firms to take into account framing effects and other biases when designing tools to support consumer decision-making.**

### **2A: Whether the proposal could contribute to addressing the concerns we have identified?**

The proposal should help customers make the right retirement choice. As well as being clear, fair and not misleading, providers will need to present information to customers in a way that is neutral, not leading and has the customer's best interests at heart.

### **2B: How the proposal could be best implemented, and/or how could practical issues be resolved?**

The proposal could be implemented as an extension to current principles that providers need to adhere to, like information being presented in a clear, fair and not misleading way. The wording would need to be suitably general as it's difficult to prescribe framing as it will depend on the individual circumstances. What is seen as neutral to one person may be viewed as biased to another person. This is particularly the case where a single approach is taken by providers to dealing with all customers.

The benefits of framing could only come from where individual circumstances are taken into account but there is a risk of straying into advice. We welcome the publication of FG15/01 and the additional clarity it brings on how firms should interpret the boundaries of advice, however we feel more content in terms of how this might impact such framing would be most helpful.

## **2C: How the proposal could be applied to UFPLS or other products?**

The proposal could be applied to UFPLS or other products as described in our response to 2A.

Providers are unlikely to use terminology like UFPLS which would be meaningless to the customer, preferring instead a term like cash sum.

Providers would be reluctant to use simple rules of thumb for withdrawals from products as they could be seen as a personal recommendation or endorsement, with the provider being held liable if matters don't turn out the way the customer envisaged.

## **2.3 Wake Up Packs**

**We will work with the Government to develop an alternative to the current wakeup pack. Behavioural trialling of the wake-up pack would allow us to assess the impact on consumers' awareness of their right to shop around, and the number of people who exercise their open market option. We would like to hear from any firms that are interested in assisting us with this process.**

### **3A: What should the proposed content of future at-retirement communications be?**

The purpose of the wakeup pack is about engagement and a call to action for the customer. They need to start thinking about how they may wish to take their retirement savings.

The pack should be short, high level and engaging to the customer. Its contents should consist of:

- An introduction to what the pack is all about,
- A short description of the different retirement options the customer can choose and those which the provider is able to offer,
- A list of some aspects the customer needs to consider when making their retirement decision (e.g. expected lifetime, provision for dependants and inflation), and

- A prominent signpost to the Pension Wise guidance service and/or financial advice.

The customer would need to request further information including any brochures from the provider.

**3B: Whether there is any other significant information that should be included in these communications? If so, please state the information required and why it should be included.**

The customer should be informed of any guaranteed annuity rates applying and the circumstances in which they apply. They should be told of any exit charges or penalties that would apply. Their presence could significantly influence the retirement decision.

**3C: Which aspects (if any) of the ABI Code we might consider incorporating into our rules in the pensions and retirement area? Please set out any additional measures that are not currently in the ABI Code that should be incorporated into our rules.**

Most of the detail of the ABI Code is still relevant but needs extending for the new retirement environment. Some aspects of the Code have already been incorporated within the FCA rules, but the FCA should consider incorporating the following additional aspects:

- Providers must explain the different retirement choices available to the customer, including the types of products that it does not offer
- Early communication with customers between 2 and 5 years before the retirement date to encourage them to start considering their retirement options
- An application form cannot be sent out to a customer unless specifically requested by them.

Alternatively the FCA could consider taking a principles based approach as recently suggested by the ABI.



## 2.4 Pensions Dash Board

In the longer term, we recommend that a ‘Pensions Dashboard’ is created which:

- **Can be accessed by UK consumers at any time through a personal log-in**
- **Sets out an individual’s entitlements including all of their accumulated DC pension savings, and**
- **Could be developed over time to allow consumers to view all of their sources of retirement (such as DB and state pension entitlements) in one place.**

### 4A: Whether the proposal could contribute to addressing the concerns we have identified?

The real challenge is to engage individuals early during the accumulation phase. They need to understand the benefits from saving for their retirement. This requires a culture shift which is beginning to happen with the success of automatic enrolment.

It is debatable whether the proposal alone will engage the disengaged member. Just because it has worked in the Netherlands, this does not mean that it will work in the UK as the two countries have different cultures and the saving systems are different. For example, most pension schemes in the Netherland are career average schemes while in the UK it is increasingly defined contribution schemes.

It is not clear how this development fits with the current ‘pot follows member’ pension initiative that is being introduced. The initiative is all about consolidating small pots while the dashboard would provide a virtual aggregator. This would appear a more logical starting point to driving greater customer engagement, potentially building on these foundations in due course for the dashboard.

Nowadays customers save for retirement through a variety of investment vehicles and not just pensions. This would require all possible investment

vehicles to be present on the dashboard from day one if it is to fulfil its real purpose and encourage more meaningful engagement.

Greater customer engagement is likely to be achieved through better quality information and smaller, more meaningful initiatives. The dashboard is very much a ‘nice to have’ development but it is only half the story. Where do customers go for guidance on pensions planning when few are willing to seek or pay for financial advice?

#### **4B: Whether, beyond those we have identified, you foresee any difficulties implementing this proposal?**

As the paper identifies, the biggest challenges are cost and implementation. They should not be underestimated as they would play a big part in determining the success or otherwise of the dashboard.

One practical difficulty would be obtaining links from across the spectrum of defined contribution pension schemes (e.g. vales for unquoted investments and one-man pension schemes).

#### **4C: How this proposal should be implemented and by whom?**

Engagement and consensus would be required by the FCA, DWP and the Pensions Regulator to bring the dashboard to fruition. It would have to be mandatory for all pension schemes (and other investment institutions) to provide data feeds to the dashboard. The difficulty will be justifying the benefit against the cost which will ultimately be borne by the customer.

## **2.5 Market Monitoring**

**We will continue to monitor the market and are seeking views on whether there are any aspects (in addition to those set out below) that we should monitor.**

#### **5A: The proposed monitoring activities set out above.**

The proposed monitoring activities mentioned are appropriate.

## **5B: Any additional aspects that we should consider monitoring.**

In addition to the activities mentioned in the paper, the following activities should be considered for monitoring:

- UFPLS – take up and how it is being used (e.g. full/partial and one-off/multiple/regular withdrawals)
- Drawdown – take up, advised/non-advised and how it is being used (e.g. one-off/regular withdrawals). Non-advised drawdown should be of particular interest as drawdown has traditionally been viewed as a high risk product
- Annuities – take up rates for the open market option, guaranteed annuity rates and enhanced annuities
- Take up of the Pension Wise guidance service and the impact this has had on the retirement choices customers have made
- Take up of financial advice instead of or in addition to the Pension Wise guidance service
- Levels of switching from DB to DC schemes to access the new retirement flexibilities
- The same monitoring should take place with defined contribution occupational pension schemes. This will require a link up with the Pensions Regulator.

Consideration must also be given to the cost of monitoring as it is ultimately paid for by the customer.

### **3. Responses to the additional questions**

#### **i. Do you agree with the conclusions we have drawn from our analysis?**

We generally agree with the conclusions drawn from the analysis.

There is a conflict in that many of the proposed remedies involve additional disclosure to the customer, yet the study findings indicate customers want less disclosure. It can only be assumed customers want shorter and more meaningful disclosure.

#### **ii. Are there any other reasons why our provisional findings should not be final?**

No.

#### **iii. Are our proposed remedies likely to be effective in addressing the issues we have found?**

The proposed remedies may assist in addressing the issues identified, however it is questionable how effective they are likely to be. They may create greater customer awareness around retirement however that on its own is unlikely to lead to greater customer engagement and changes in customer behaviour.

Customers need to be led through the retirement journey, rather than simply being told what they should do, to ensure they receive the best solution for their needs. The proposed remedies don't go far enough in making this happen. They need to be supplemented by affordable financial advice or an enhanced Pension Wise guidance service that can give individuals a recommendation.

#### **iv. Are there any other remedies that we should consider?**

There is one other remedy that you should consider.

Providers could be encouraged to offer customers an annuity bureau which has sufficient market coverage. This is the only practical solution to addressing customer inertia to shopping around and ensures customers receive the best annuity for their circumstances.