



**OUR RESPONSE TO:**

**FCA CONSULTATION PAPER CP14/11**

**RETIREMENT REFORMS AND THE  
GUIDANCE GUARANTEE**

**22 September 2014**

## **Introduction**

The Royal London Group is pleased to respond to this consultation paper on the retirement reforms and Guidance guarantee.

## **About the Royal London Group**

### **Royal London**

Royal London was founded in 1861, initially as a friendly society, and became a mutual life insurance company in 1908. It is now the UK's largest mutual life and pension company with funds under management of £73.6 billion.

Our businesses serve around 5.3 million customers and employ 2,900 people.

(All information as at 31 December 2013)

### **Investment Funds Direct Limited (Ascentric)**

Investment Funds Direct Limited (IFDL) was founded in 1982 and launched the UK's first web-enabled fund supermarket in 1999.

IFDL launched the Ascentric Wrap platform to the adviser market in January 2007 and the number of investors using the platform and the funds under management have grown rapidly since then.

Ascentric joined the Royal London Group in November 2007.

## **Our response**

Our response is made up of two parts:

1. Our general view
2. Responses to the questions

## 1. Our general view

We welcome the FCA's consultation on Retirement reforms and the Guidance Guarantee.

The 2014 Budget changes will give customers greater freedom and choice on how they take their pension benefits, but with this increased flexibility comes complexity as customers attempt to understand their options and navigate the market. The presence of the Guidance service should assist customers in understanding their options, but it will not help them to find the best product. Only advice can assist them in this; information sources and online tools may go some way to addressing customers' needs, but they can only go so far. Advice needs to be more readily available and advisory firms need to be able to extend their services to a wider range of customers including those with relatively modest retirement savings.

### Delivery Partner Standards

The proposed standards for the delivery partners of the Guidance service generally appear reasonable, but they don't go far enough in compelling the customer to take appropriate action. There must be a smooth process for handing off customers requiring advice to financial advisers while those customers who want to self-serve (or are unwilling to pay for advice) must understand how they can find and compare suitable products.

The Guidance service should make explicit reference to individual advice as most customers are likely to benefit from it. Customers risk making poor decisions based on the limited information that they have received from the Guidance service unless there is a clearly-signposted source of further advice or information. We would go as far as to propose that the regulator assists industry by enabling lower-cost at retirement advice to sectors of the market that are not currently served by advisers. Advisory firms are very well-placed to provide this service but are currently constrained by the cost of providing the current lengthy full advice process. The output from Guidance could be used to reduce time spent in fact-finding but does not currently have any regulatory status.

It is imperative that we have clarity over the standards and nature of guidance as soon as possible if the service is to be implemented for April 2015 which should be coupled with a high profile campaign to encourage take up.

It is important that the free at point of delivery Guidance service is separate from other services that result in a personal recommendation. Guidance should orientate the recipient but not take them to a solution and this must be fully explained at the outset. Otherwise there is a risk that the unscrupulous try to pass themselves off as providing “Guidance” when in fact they are selling unregulated products or operating a pensions liberation scam.

## **Retirement Guidance Levy**

We believe that if the retirement Guidance levy is to be funded by the industry, all customers who have an opportunity to benefit from the Guidance service should contribute towards its cost. Customers would include all members of occupational pension schemes, master trusts and contract based pension arrangements.

The proposed use of FCA periodic fees framework to collect the levy is fundamentally flawed as it fails to allow for new drawdown offerings being developed by occupational pension schemes and master trusts which are not FCA regulated. Their customers will benefit from receiving the Guidance service and hence should contribute to the levy.

A more appropriate and fairer way of funding the levy would be to collect an annual percentage charge across all the pension arrangements. The FCA would need to link up with The Pensions Regulator for the collection of the member charge from occupational pension schemes and master trusts.

However we see this as an interim solution only. Once a pattern of Guidance usage by customer type is established and there is reliable data available on the actions taken post-Guidance including ultimate product purchase, the levy should be revised and re-weighted so that those firms benefiting from Guidance are bearing the costs of Guidance. The product types that we consider to be in scope for this revised levy would include ISA and deposit providers as well as the providers of annuities and drawdown arrangements.

## **COBS Rule Changes**

The proposed changes to the COBS rules generally appear reasonable, subject to some minor amendments or clarifications. We are pleased that the changes have been kept to a minimum and the signposting to the Guidance service can be built into existing retirement benefit processes.

### **In summary**

We believe that it is important to get the delivery standards for the Guidance service right as good customer outcomes depend on it. Some customers will not take advice and simply rely on the Guidance received for making their benefit decision. But advice should be more readily available (through the existing network of advice firms) and the regulator and industry should work towards the creation of a more widely-available advice process.

All customers who will potentially benefit from the Guidance service should contribute towards the cost of the retirement guidance levy. An annual per member charge across all pension arrangements would achieve this. Once the ultimate beneficiaries of the service become evident the levy should be revisited and spread across those firms.

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

### **Q1: Do you have any comments on the proposed standards for the delivery partners?**

The proposed Standards for delivery partners appear reasonable, but we have concerns about some of the detail of the Guidance process.

We understand that The Pensions Advisory Service (TPAS) will be the lead delivery partner, at least initially. We welcome this move which should remove risk in the early days of the service. TPAS is well regarded within the industry for its expert-led service.

However, there are a number of things that are not clear from the proposed Standards. For example, what mechanisms will be in place to help consumers understand the scope of the Guidance? What inputs will be required ahead of Guidance? In particular, if Insurers will be required to make additional information available we need to know now in order to be able to implement quickly enough. And how will customers be encouraged to be able to take the right 'next steps' rather than be overwhelmed with too much complexity in too little time?

In our view that the inputs must be requested in advance of the Guidance session to allow more time for Guidance, and should be requested at the point when the Guidance appointment is made.

The "Content of Guidance session" standard must make clear up front to the individual consumer what the Guidance service can and cannot provide in order to manage their expectations. In particular, the customer must be informed that the Guidance service cannot provide a recommended solution, product or provider. The Guidance service should also make explicit reference to the value of regulated advice. This could be full or simplified advice. Customers with significant total pension assets or more complex financial circumstances should be made aware that they need to take advantage of advice for tax and inheritance planning purposes.

In terms of the output of Guidance, it would be helpful if there is real clarity on the expectations placed on advisers (and product providers) over the status of the Guidance output. It is welcome that there is no formal expectation on

providers to check that Guidance has been received but the fact remains that under the current proposals, advisers (or product providers if approached direct) will neither be able to ignore an output from the Guidance, nor rely on it.

Equally, consideration will need to be given to the “next steps” standard to ensure people are equipped to take action, and that the customer’s journey is smooth. This will need to be as clear as possible and standardised in order to encourage action, without crossing the boundary of regulated advice. The Guidance outputs will be an important factor in demonstrating whether Guidance achieves the expectations set for it. In our view, to be successful, at the end of the Guidance process:

- There must be a smooth process for handing off customers requiring advice. Customers should have access to an industry level list of advisers who are willing to give retirement advice, the services they offer and typical fees. We believe that this is already in development.
- Self-serve customers, or those unwilling to pay for advice, must understand how they can find and compare good products. For annuities, this could be a referral to a whole of market annuity bureau. For other products, this is more difficult as there is no current single source of available products.

There is a risk that if the Guidance service is not joined up, it will not succeed in helping the customer to achieve the desired outcome and they will disengage from the process or take the easy option of staying with the current provider. We believe that if the *majority* of customers revert to their original provider this would represent a potential market failure and a risk of consumer detriment.

We welcome the read-across to FCA rules in the standards and concepts such as “clear, fair and not misleading” and “systems and controls”. It is reasonable that delivery partners and regulated firms may be able to learn from each other – for example, if a Guidance Guarantee delivery partner is successfully clear, fair and not misleading in the language it uses, then firms should be able to apply the same language.

However, if there are differences between the FCA’s expectations of those within the standards regime and regulated firms, this will need to be crystal clear. For instance, we agree that Guidance must be “consistent and of good quality” but would welcome clarity around the complaints handling standards and role of the adjudicator function.

The need for ‘professional standards’ is welcome but given the standardised nature of the Guidance process, a further articulation of how competence benchmarks will be set, measured and monitored would be welcome. This should be part of the standards set for delivery partners, and there should be an early indication of what is viewed as success, and what records will need to be held.

**Q2: Do you agree with the proposed use of the FCA periodic fees framework to collect the retirement Guidance levy? If no, please provide alternatives and set out how they would be implemented.**

We recognise that developing a levy structure which is proportionate and fair, within the timescale set by government, is challenging. The proposal to utilise the FCA’s administrative framework is understandable however it seems clear that the use of the periodic fee structure on its own promotes operational expediency at the expense of strong cost control and fair allocation of costs across the DC pensions community. As it stands, the structure removes trust based occupational providers including NEST, from the obligation to contribute. Providers who do not offer retirement income products and those in adjacent markets, such as equity release and long term care, could all be classed as stakeholders with a commercial interest in this process.

The proposed structure is flawed as it fails to allow for new retirement offerings being developed by some occupational pension schemes and master trusts which are not FCA regulated. NEST and NOW: Pensions, and there will be others, are understood to be developing income drawdown offerings in response to the retirement reforms. Their customers will benefit from receiving the Guidance service and hence should contribute to the levy.

A more appropriate and fairer way of funding the levy initially would be to collect an annual percentage charge based on assets across all trust and contract based pension arrangements. The FCA would collect the charge from the firms that it regulates while The Pensions Regulator would collect the charge from the occupational pension schemes and master trust arrangements. This would involve the FCA needing to link up with The Pensions Regulator for the collection of the member charge.



This method ensures that all customers who have an opportunity to benefit from the Guidance service contribute towards its cost. It also avoids a very subjective method of allocating costs to different fee-blocks and not all firms within a fee-block will necessarily benefit to the same extent from the retirement reforms as acknowledged in the paper.

As information about the usage of Guidance and the ultimate product provider beneficiaries from the system emerge, the structure of the levy should be adjusted so that it fairly falls on those that ultimately benefit as much as those providing accumulation products and schemes.

**Q3: Do you agree that firms in the proposed five retirement guidance fee-blocks (Table 3.1) only should contribute to the retirement guidance levy? If no, please provide your reasons.**

As explained in our response to Q2 above, there are other firms and parties who will benefit from the Guidance service and should also contribute to the retirement guidance levy.

**Q4: Do you agree that firms in the remaining fee-blocks set out in Table 3.2 should not contribute to the retirement guidance levy? If no, please provide your reasons.**

It seems reasonable that firms in the remaining fee-blocks should not contribute to the retirement guidance levy. If they do not write pension business, it does not seem fair that they should contribute towards the levy unless evidence emerges subsequently that they are benefitting from the provision of Guidance.

**Q5: Do you have any comments on the three options for allocating the overall levy across the five retirement guidance fee-blocks? If you do not agree with any of these options please advise us of your proposed alternative allocation options.**

As explained in our response to Q2, the proposed use of the FCA periodic fees framework to collect the retirement guidance levy is fundamentally flawed. A more appropriate and fairer way of collecting the levy initially would be to raise an annual charge across all insured and non-insured pension arrangements.

This would be replaced by a levy that falls on the providers that ultimately benefit from the provision of Guidance.

**Q6: Do you agree with the proposed content of the signposting information? If no, please provide alternative suggestions.**

The proposed content of the signposting information appears reasonable. We believe that it would be worth extending the content to explicitly state that the Guidance will not provide a recommendation but orientation. This will manage customer expectations of the result from the Guidance service.

**Q7: Do you have any thoughts on the standardisation of this information for the future?**

The standardisation of this information would be a worthwhile future development, but not from April 2015. The delivery partners need to agree on the information they require and the Guidance service should be bedded in first, before such a development should be considered. This should be informed as much as possible by the behaviours and experience of consumers in the market. The Retirement Income Market Study affords such an opportunity, and we look forward to its publication.

**Q8: Do you agree with the proposal to align the timing of the signpost with the existing timing requirements for wake-up packs?**

The aligning of the timing of the signpost with the existing timing requirements for wake-up packs makes sense and avoids the need for a separate communication from providers to customers. The timings for the signpost and wake-up packs should be reviewed in due course once the Guidance service has bedded in and demand for the service is better understood.

**Q9: Do you agree with the proposal to introduce a transitional provision to ensure that those receiving wake-up packs before April 2015 do not miss out on being signposted to the guidance?**

A transitional provision is required for those customers receiving wake-up packs before April 2015 to make them aware of the Guidance service, but this can be achieved through means other than issuing a revised wake-up pack with the six-week reminder letter. A simple letter informing them of the Guidance service or

the mentioning its existence within the reminder letter would also fulfil this purpose.

**Q10: Do you agree with the proposal to add this guidance?**

The principle behind the addition of the Guidance is sound, but there is significant risk that it will deter providers from offering help and information to customers for fear of being viewed by customers as ‘holding themselves out as providing an equivalent service’ to the Guidance Guarantee.

It may be safer to amend the requirement so that providers are required to make customers aware of the Guidance service in all primary communications and discussions around their retirement options.

**Q11: Do you agree with the proposal that firms should refer to the availability of the Guidance whenever they are communicating with a customer about retirement options?**

The proposal only makes sense in the correct context. It is relevant to refer to the availability of the Guidance in communications with a customer about retirement options when they are approaching their selected retirement date, but it is not relevant in more general communications which make reference to retirement options like yearly statements.

The requirement to refer to the availability of Guidance should be restricted to the primary retirement communications that a customer receives from the provider.

**Q12: Do you agree with our proposal to clarify the information provision requirement and add guidance on information that should be included?**

The proposal is reasonable and many providers will already include most of this information in their benefit options pack. Greater clarity is needed around the level of detail expected to be included on a guarantee, special feature, restriction or condition. It is assumed that it is just the presence that needs to be stated, rather than any monetary amount quantified.

**Q13: Do you have any comments on whether further requirements should be placed on provider behaviour and communications?**

There has been a significant amount of work done in this area and adherence to the ABI Code of Conduct on Retirement Choices. We would welcome further development towards ever improving practice but would request this is informed by the Retirement Income Market Study and managed through such a structure which already exists.

**Q14: Do you agree with the proposal to remove the reference to maximum withdrawals and require a general statement about sustainability of income and to add to the guidance that the suitability letter should include a description of the potential tax implications?**

The proposal to remove reference to maximum withdrawals and include a general statement about the sustainability of income to the suitability report makes sense. Maximum income limits cease to apply from April 2015, but customers need to be made aware up front that if they take too much out of their plan early on they risk running out of money later.

We would welcome clarity on communication where customers are in capped drawdown and the frequency of the sustainability statement where further lump sums are taken from the fund.

Tax planning will become even more important for customers with the retirement freedoms being introduced. Customers need to be made aware of the potential tax implications of taking the chosen level of withdrawals from their plan. Greater clarity is needed on the level of detail expected as an individual's tax position will not necessarily be fully known.

**Q15: Do you agree with our proposal to remove the reference to maximum withdrawals in COBS 13 Annex 2 2.9R?**

It makes sense to remove reference to maximum withdrawals except for capped drawdown customers.

**Q16: Do you agree that there do not need to be any changes to the key features contents rules? If no, please explain why.**

There do not need to be changes to the key features content rules, but the content of key features will need to be amended to reflect the new retirement flexibility offered under the product. In due course, we would welcome simplification and alignment of drawdown disclosure.

**Q17: Do you agree that the projection of an annual income in retirement and a projection of the total fund is still useful and therefore this rule should not be amended?**

Both projections are still useful. The projection of the total fund gives customers an indication of what their pension savings may be at retirement under a range of investment scenarios. While the annual income provides an indication of what level of sustainable income may be obtainable from that fund. Customers need to be made aware that this income is purely indicative through clear disclosure.

We are interested in exploring how illustrating a range of life outcomes (e.g. early death, desire to pass income onto the family etc) can be reconciled with strict compliance with COBS rules.

**Q18: Do you agree with the proposal to add a requirement for providers to provide their customers with a description of the possible tax implications and of the availability of the Guidance Service when they are applying to access some or all of their pension fund using any of the options available?**

This area needs further work. Providers can only give customers a general description of the taxation of benefits as they will not generally know their tax position. Greater clarity is needed around the level of detail expected to be included, as it is impossible to provide a meaningful description of the possible tax implications for the customer without knowing their individual tax circumstances.

It would be reasonable for providers to make customers aware of the availability of the Guidance service when they are applying to access their benefits.

**Q19: What are your views on the approach taken on costs and benefits?**

The approach taken on costs and benefits appears reasonable.