the people's pension

provided by B&CE

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Financial Conduct Authority Retirement Income Market Study

A response from B&CE, provider of The People's Pension

1. We propose to require firms to make it clear to consumers how their quote compares relative to other providers operating on the open market. Please set out your views on:

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

The FCA is right to identify this risk; where individuals fail to get the best deal at retirement because they do not shop around. Consumers do need to know that they may get a better deal elsewhere and how to go about getting it.

Some firms will understandably be concerned about how they can discuss competitors' products with a potential customer in a fair and balanced way. There will need to be a centrally available and neutral source for the comparison. Retirement income providers may also base their quotes on a wide range of factors which will need to be replicated in the comparison.

Ultimately, a key function for retirement income providers at this stage is to ensure that consumers know the context of the decisions they are making. Consumers should be aware that might get a better deal on the open market, though awareness is not in itself sufficient. Savers must be able to access the open market easily and efficiently. For example, the car insurance industry has been revolutionised by online comparison sites. The 'advice gap' is evidence of a growing need for similar facilities to be available to savers approaching retirement.

While the FCA's proposal may work for comparing annuities, there is likely to be a greater range of products available to consumers from April 2015. These may hold different benefits and risks for individuals and a comparison between them will be more challenging. We believe that a new generation of products can be designed and marketed for online sales if regulation is adapted to reflect the needs of consumers.

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

It is reasonable to expect retirement income providers to discuss how savers can secure a good annuity deal with consumers before a final decision is made. This might include a basic comparison using a publicly available source (such as the Money Advice Service's website), though it may not be able to produce a like-for-like quote. Providers may like to make clear to consumers that the comparison is for illustrative purposes only.

For financial services firms in particular, it is risky to present a competitor's products to consumers. One solution is for providers to indicate how their offer compares to the best deals available without naming individual providers. However, it is hard to see how firms would encourage customers to go elsewhere rather than buy their own product. The behavioural effects of this proposal must be examined.

As we discuss below, it may be preferable to completely transform disclosure information to narrow down the amount of information provided to savers. There is therefore a question as to whether any form of illustration is helpful.

Consumers do need some awareness of the issues surrounding this difficult set of decisions. Research, such as that recently produced by the Pensions Policy Institute, suggests that people value a conversation with a neutral party about their retirement options. This is why Pension Wise was created and in the first instance retirement income providers should always direct consumers to this service. A comparison of illustrations could be delivered in a few moments during a Pension Wise session, and ultimately this may produce better results than further layers of disclosure in an already crowded retirement pack.

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

In the past, partly to satisfy disclosure rules, the industry has tended to provide too much information in a way that risks overwhelming people. People approaching retirement face one of the most difficult financial decisions they will ever make and typically start from a very low knowledge base.

Whilst efforts to improve disclosure are well-intentioned, we believe that a typical pre-retirement wake-up pack will remain mostly unread. Information disclosure should be kept to a minimum and should focus on directing people towards Pension Wise.

For low value pots, whose owners are less likely to value a Pension Wise session, telephone disclosure is not only appropriate, but also desirable. Written disclosures may not be read or understood, but a part-scripted conversation covering key points is likely to be useful. Many financial transactions today can be conducted over the phone and are accompanied by a number of risk warnings, we see no reason why some pension transactions could not be handled in the same way.

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

It is very hard to identify what other kinds of retirement income products will be developed after April 2015. As the FCA notes in its consultation documents, these product could be quite complex and may incorporate features of both annuities and drawdown. Although it should be noted that complexity is not guaranteed, a range of simple products could also arise.

The FCA should monitor the market closely to assess the dominant product types and consider how this implementation could be mapped on to each.

Different retirement income products will have different benefits and risks. For example, drawdown may have greater flexibility but without longevity insurance. Consumers should be aware of these different risks so that they can pick the right product for them. It should be possible to compare products on the basis of a handful of features. These would include payment frequency, product duration, level of income, security of income, increases in payment and explicit costs. However, this does require development of an infrastructure to support the shopping around and comparison process.

2. 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. Please set out your views on:

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

The FCA is right to identify this issue, and we welcome the FCA's concern that framing effects be taken into account with a view to promoting better outcomes. There does need to be an understanding of whether framing has a universal effect, or if different framing is required depending upon, for example, gender, income or age. Misuse of framing could exacerbate the problems for an industry that has such an information imbalance between providers and customers.

As noted above, some retirement income providers may be concerned about nudging consumers towards particular products, as there will be individuals whose circumstances merit an unusual approach.

Rather than nudging customers towards particular products, framing should be used to direct people towards Pension Wise and avoid the worst possible outcomes. In short, framing should encourage people to take guidance first and then act when they have made a decision, rather than acting rashly when their knowledge base is lower.

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

Framing should be designed, above all else, to get savers to make use of Pension Wise. Use of this service is probably the best single way to head off the very worst outcomes. To do this effectively a degree of thought must be given to the amount of information provided to savers at various times. Rather than attempting to explain all the risks in one place, it is important that savers are provided with the opportunity to discuss their intentions, and the associated risks.

Research tends to suggest that when presented with too much choice or information, people are less likely to make a decision. Therefore, the key to success here is simplicity by focusing on directing people towards Pension Wise.

There are a number of other significant risks facing people at this stage in the process, where they have access to their pension freedoms but their knowledge base is low. For this reason, providers may also want to alert members to the risks of pension liberation fraud.

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

There are particular risks for UFLPS, such as the risks of exceeding tax thresholds, to which members should be alerted. However, some individuals interested in this approach will have very small pension pots so any warnings should be proportionate to the risks involved.

Ultimately, there needs to be a holistic approach to regulation of retirement income products, including UFPLS, which matches the regulatory framework to the level of risk.

3. We will work with Government to develop an alternative to the current wake-up pack. Behavioural trialling of the wake-up pack would allow us to assess the impact on consumer's 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. Please set out your views on:

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

Wake-up packs have been highly problematic for some time. They often contain large volumes of information, presented in an unengaging way, and since they are sent out six months before an automatically-generated retirement date often set decades beforehand, there is no guarantee that they will arrive during the narrow window between an individual first thinking about retirement and then accessing their pension savings.

There needs to be a clear objective for the wake-up pack, with some thought to what kind of outcomes are to be desired for individuals who receive one. In our view, the desirable outcome would be for the consumer to contact Pension Wise. There is a case for stripping down the wake-up pack to some core information, but principally directing consumers to Pension Wise.

The timing of the wake-up pack is important. Evidence suggests that people only think about retirement for a couple of years before they retire and may only seriously plan their retirement finances for a few months. Rather than attempting to target a narrow period, it may be appropriate to abandon the wake-up pack altogether and instead contact members on a number of occasions as they approach and pass age 55. For example, by including at retirement communications with the annual benefit statement.

More broadly, the FCA should avoid highly prescriptive rules on the content of communications as this is unlikely to be well suited to a more open and rapidly evolving market place. Inevitably, people will have different retirement options depending on, amongst other things, the size of their pension pot. Different people will be exposed to different risks, so the FCA should not adopt a one size fits all approach. The best approach, at least in the early years, is to adopt rules that allow providers to cater their communications to members.

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.

Rather than more information, we believe that less information is desirable. People should be directed towards Pension Wise and given simple information relevant to the Pension Wise discussion. The only other information provided at this time should be a warning of potential scams.

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.

The challenge with any industry-led Code will be around take up and enforcement. Incorporating the ABI's Code into FCA rules will help in these areas.

However, the ABI's Code was written for the retirement income market in 2013. From April 2015, that market will be radically and increasingly different. We strongly believe that a fresh approach should be taken rather than a re-heating of yesterday's leftovers.

4. In the longer term, we recommend that a 'Pensions Dashboard' is created. Please set out your views on:

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

We strongly support the creation of a Pensions Dashboard.

We are concerned about savers reaching retirement with many pots, spread out over many schemes and the risks that they lose track of some of these pots. A Pension Dashboard is an excellent opportunity to drive engagement with pensions, giving consumers control over their savings. There is much international evidence, including experiences in the Netherlands and New Zealand, that such initiatives can be very popular. In this country, there are examples from other sectors such as the take-up of online banking.

A Pensions Dashboard has become especially relevant in light of the pensions freedoms from April 2015. People need to be able to see an overview of their pension savings before their conversation with Pension Wise. This tool will be enormously helpful for people when deciding how to use their pension savings.

Given the Government's support for automatic transfers, we also believe that there is a role for a Pensions Dashboard in making transfers easier, more efficient and giving savers oversight of the system. Many of the challenges of automatic transfers are around data sharing, and this will provide a set of protocols for providers to share information. Furthermore, it gives individuals a chance to engage with the process with the option of consolidating pots in a scheme of their choice. We believe that a Pension Dashboard is an essential component of any automatic transfers solution.

We also believe that there is a strong business case for providers supporting a Pensions Dashboard. Annual statements and regular information deliveries could be facilitated through the system, and it might provide a saver with a single point of contact for all their schemes. It would give providers a mechanism for tracking members, for example identifying members who exceed the money purchase annual allowance.

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

While there is a growing consensus that a Pensions Dashboard is desirable in principle, there has been little discussion of how it would work in practice.

We can see three principal options. Firstly, a Government-led pension database. Secondly, an independent hub drawing information from pension providers. Thirdly, individual personal accounts, for example using the functionality that many providers already have for members to engage with their savings online but where a member's entire pension savings are displayed. Each option will have its own benefits and challenges.

Whichever system is adopted, someone will have to pay for a Pensions Dashboard. We believe that it should be funded by pension providers and we would be prepared to pay our share. This is because we believe there is a compelling business case for a Pensions Dashboard for the largest pension providers, particularly if providers are permitted to use it to deliver information to savers.

A Pensions Dashboard would also have to overcome the fragmented nature of the UK pension system. That would involve displaying the many possible benefit structures in a fair, understandable and comparable way. It may be a challenge to extend the Pensions Dashboard to the smallest pension schemes, especially smaller single employer trust-based schemes. A possible solution would be to start this project amongst the largest providers, accounting for a large proportion of the workforce, and allow individuals to add in other pension information themselves.

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

As above, there are a number of options for implementing this proposal. We think it is important that the work is taken forward by an independent body without a commercial interest in the pensions industry, but funded by it.

Over the last few months, we have developed a number of options for implementing a Pensions Dashboard. We would be happy to share our findings and discuss this further with the FCA.

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

5A: The proposed monitoring activities set out above.

The FCA has identified a sensible set of risks and corresponding monitoring activities.

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

No comment.

6. We would welcome your views on the following questions:

6A: Do you agree with the conclusions we have drawn from our analysis?

Yes.

6B: Are there any reasons why our provisional findings should not become final?

In general, we support the provisional findings.

However, many of the findings identified in this report represent starting points rather than conclusions. There is more work to be done on how initiatives such as new wake-up packs, framing effects and a Pensions Dashboard are to be developed and implemented practically.

6C: Are our proposed remedies likely to be effective in addressing the issues we have found?

Yes, but more likely when starting from a clean sheet rather than applying sticking plasters to existing rules. Ultimately, the FCA must monitor the retirement income market as it develops in the future to ensure that its rules are relevant.

6D: Are there any other remedies that we should consider?

These proposals are a welcome step in the right direction, and address many of the key issues facing people at retirement. Given the uncertainties in the market at this time, it is impossible to say whether the findings will be sufficient to address the considerable risks. The FCA must monitor the market as it develops and update its rules as necessary.

Contact details

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