30 October 2015

Jackie.wells@plsa.co.uk
Direct: +44 (0) 20 7601 1721

Retirement Outcomes Team
Competition Division
Strategy & Competition
Financial Conduct Authority
25 North Colonnade
Canary Wharf
London E14 5HS

VIA Email: RetirementOutcomes@fca.org.uk

Dear Retirement Outcomes Team

Retirement outcomes review

In its response to the FCA's interim report for its retirement income market study, the Pension and Lifetime Savings Association (then the National Association of Pension Funds) called upon the FCA, Government and TPR to be:

> ***"clear about what constitutes a 'good' outcome and regulate only where it drives progress towards 'good'. Clarity on outcomes will also help in the development of the right framing, heuristics and other behavioural techniques which we agree will be essential in helping savers as well as helping to shape good, new retirement income solutions."***

The association is therefore pleased to see the FCA take the lead on this issue but remains of the view that the further development of regulation, whether designed to facilitate wider access to the pension freedoms or to protect pension savers from poor outcomes, requires the involvement of multiple agencies. **The Association would encourage the FCA to engage with Government, the Pension Regulator (TPR) and other organisations, such as this Association, with an interest in retirement outcomes**.

Pre- pension freedom outcomes and risks

The introduction of pension freedoms has fundamentally changed the risk landscape for pension savers, both DB and DC. Prior to April 2015, risks for the saver were largely mitigated by a combination of rules and other protections that ensured that an individual could secure a lifetime income in retirement. Those who chose to take additional risks by taking an income through income drawdown were most at risk of failing to secure a lifetime income but even those risks were mitigated by rules around the amount of money that an individual could take unless they had secured a separate income elsewhere.

Figure 1: Outcomes and risks for pension savers before April 2015

	Majority	*Minority*
Outcome	• Lifetime income secured through DB scheme • Lifetime income secured through purchase of an annuity	• Variable retirement income drawn from capped or flexible income drawdown (or short term annuity)
Risks	• Employer insolvency (DB) • Annuity provider insolvency • **Failure to maximise lifetime income** • **Failure to provide for spouses income** • **Inflation (for DC)**	• Investment volatility erodes fund • Taking too much income and running out of funds • High charges • High advice costs • Poor investment choices • Poor advice • Provider insolvency • Scams
Risk mitigation	• DB funding requirements and Pension Protection Fund (PPF) • Financial Services Compensation Scheme • PRA capital / solvency requirements (annuity providers) • ABI code of conduct • FCA disclosure and advice rules • Financial Ombudsman Service (FOS)	• HMRC rules on capped and flexible drawdown • Financial Services Compensation Scheme • PRA / FCA capital / solvency requirements • FCA disclosure and advice rules for drawdown • Transfer regulations • Financial Ombudsman Service (FOS)

New outcomes and risks

Since the introduction of the pension freedoms in April 2015, both the outcomes and the risks have become wider ranging and more complex and, as a result, the systems to mitigate those risks have also had to become more complex. However, ultimately pension savers can no longer be as well protected against some of the risks that they now face. What was an outcome for the minority of securing an uncertain income in retirement from drawdown products or being exposed to pension or other investment scams is now an outcome faced by the majority. Moreover, the outcome of withdrawing pension savings and trying to secure a retirement income from other savings and investment options is already happening, while for some pension savings have become a route to paying off debt or for immediate gratification.

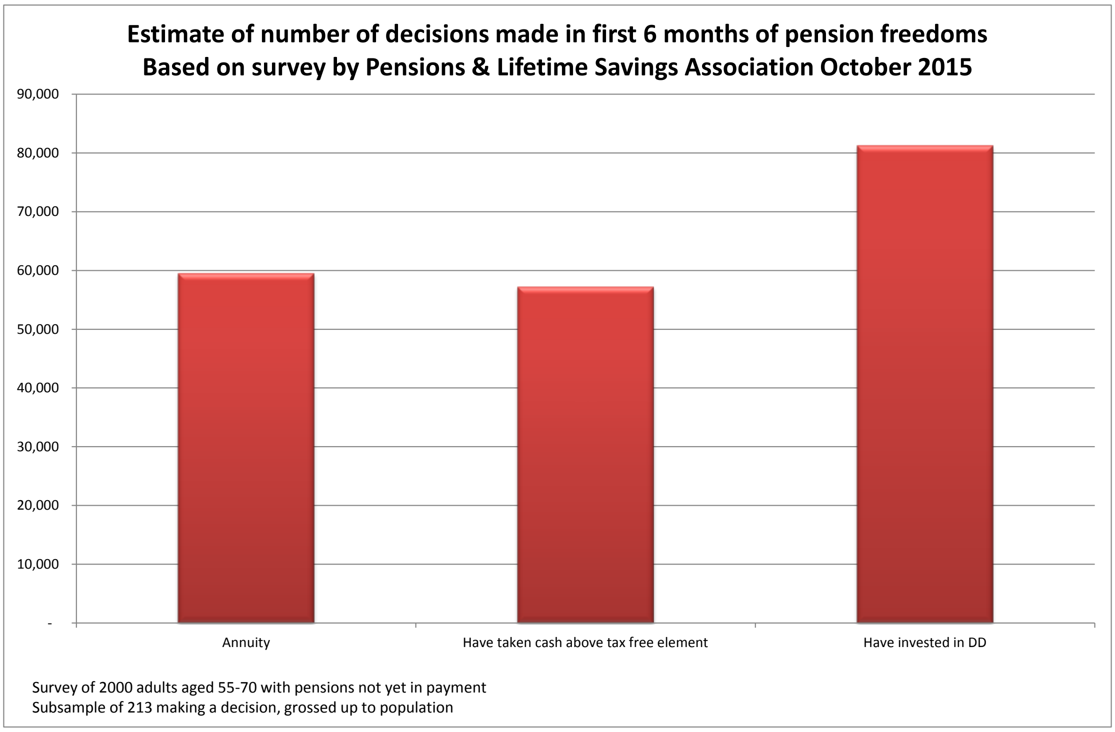
Figure 2: Outcomes and risks for pension savers before April 2015

	Minority	*Majority*
Outcome	• Lifetime income secured through DB scheme • Lifetime income secured through purchase of an annuity	• Variable retirement income drawn from capped or flexible income drawdown (or short term annuity) • Variable income through other (non-pension) savings or investment vehicles (including property) • Paying off debt with pension savings • Withdrawing and spending pension savings before or in early years of retirement
Risks	• Employer insolvency (DB) • Annuity provider insolvency • Failure to maximise lifetime income • Failure to provide for spouses income	• Taking too much income and running out of funds • Investment volatility erodes fund • Inflation erodes savings • Property market crash • High charges • High advice costs • High tax charges • Poor investment decisions • Poor advice • Provider insolvency • Scams
Risk mitigation	• DB funding requirements and Pension Protection Fund (PPF) • Financial Services Compensation Scheme • PRA capital / solvency requirements (annuity providers) • ABI code of conduct • FCA disclosure and advice rules • Financial Ombudsman Service (FOS)	• PensionWise guidance service • Advice requirements for DB to DC transfers • Retirement risk warnings • New regulatory requirements (not yet defined) for in-scheme decumulation • Financial Services Compensation Scheme • PRA / FCA capital / solvency requirements • FCA disclosure and advice rules for drawdown • Transfer regulations • Financial Ombudsman Service (FOS)

Early evidence of behaviour, outcomes and risks

Early analysis of recent research conducted for the Pensions and Lifetime Savings[1] Association reveals that in the first six months of freedoms, among the first cohort with access to the freedoms (numbering just under 4 million):

- Around 100,000 have transferred from DB to DC (5% of those with DB)
- Around 320,000 have taken some action on their DC (15% of those with DC) in the first six months of freedoms
- Among those with DC funds, while drawdown has been the most popular option, many have taken cash beyond simply their tax free allowance, while some have purchased annuities (estimates by the Pensions & Lifetime Savings Association in the chart below).



While these outcomes may not be an indication of any detriment, there are some indications from our research, that some do not fully understand the risks to which their decisions expose them.

The Association will be happy to share further research findings with the FCA as part of the review.

[1] Understanding Retirement wave II, unpublished results, survey of 2000 adults aged 55-70 with pensions not yet in payment at April 2015.

Shape and scope of the review

In designing a regulatory environment that affords more protection **the Pensions and Lifetime Savings Association believes that it is essential to look at the full range of outcomes that face consumers rather than being limited to those outcomes that result in from a regulated product sale**. A focus on product sales risks introducing protection against one outcome or set of risks that could drive savers to other outcomes that subject them to even more risk.

By way of example, it might appear reasonable to afford those seeking to invest in new income drawdown products more protection by requiring them to seek advice or by requiring the providers of those products to ensure that those buying understand fully the risks to which they will be exposed. Such an approach might provide effective protection in an environment, such as we left in April this year, where people are effectively forced to buy a particular type of product. However, with no limits or boundaries on how savers can take their pensions, introducing these new 'protections' may serve more as a barrier than a protection and could drive people to the much simpler path of taking cash and exiting the pension system. This is likely to lead to outcomes much less well-aligned to savers' intentions. . **As part of the review, the FCA must consider whether, in a retirement savings environment with no boundaries or limits, relaxing the rules might afford better overall protection for savers than tightening them. Striving for the ideal outcome for all could lead to poor outcomes for the majority.**

The Pensions and Lifetime Savings Association is particularly concerned about the role of guidance and advice in shaping pension saver outcomes. The market for retirement income solutions, advice and wider support is not yet fully formed and the interaction between outcomes available to consumers, evolving consumer and market behaviour and the help afforded to savers at retirement or when they seek to access their funds is one which is likely to require attention for many years to come. While advice will continue to play an important role in shaping outcomes for some, the requirement to take advice can also act as a barrier to good outcomes for others. **Helping the market develop smooth and low cost pathways for savers that help them move from accumulation to securing an income in retirement will be an important part of the retirement outcomes review. The Association would encourage the FCA to consider the role that trustees can play in helping members of trust-based schemes to find a way to secure their retirement income in the new landscape.**

In considering outcomes for savers, it will also be important to reflect on the longer term impact of decisions as well as the immediate effect on household finances. For example, a decision to take the cash at age 55 and pay off debt may appear rational but since pension savings are not easy to replace, may leave the individual or the household worse off in later life than would be the case if they left their funds to accumulate longer.

Finally, in considering outcomes for savers, it will also be important to understand more fully the interaction between the trust-based and contract-based parts of the pension sector. While traditionally the movement of funds has tended to be one-way at retirement, from trust-based schemes to insurers and providers of income drawdown, the new market may be more complex with some savers relying on their trust-based DC schemes to deliver their retirement income and even some moving funds from contract-based to trust-based. Any added protection or relaxation must be appropriate for both types of scheme to operate. **The FCA should ensure that, in reflecting on 'products', decision-making and advice, it works closely with TPR and the Association in understanding the changes taking place in the trust-based DC sector.**

In summary, the Association would suggest that the following issues are considered in shaping and scoping the Retirement Outcomes Review:

- focus on good outcomes not ideal outcomes for all and reflect on the long term impact of decisions;
- do not limit the review to outcomes related to product sales and advice;
- consider what consumer behaviour may arise from any new interventions, good and bad;
- do not close the door on new ways of helping savers reach good outcomes that do not require full regulated advice;
- consider the role that trustees can play in helping steer savers towards good outcomes;
- ensure that developments in the whole pension sector, not just that regulated by the FCA, is considered in the review;
- engage with a wide range of stakeholders.

Yours sincerely,

Jackie Wells
Head of Policy & Research
Pensions and Lifetime Savings Association
(formerly the National Association of Pension Funds)