advice and support for older age
Independent Age

Independent Age response to the Financial Conduct Authority's consultation on retirement reforms and the Guidance Guarantee

22 September 2014

About Independent Age

Founded 150 years ago, Independent Age is a growing charity helping older people across the UK and Ireland through the 'A, B, C' of advice, befriending and campaigning. We offer a national telephone and email advice service focusing on social care, welfare benefits and befriending services, which is supported by a wide range of free printed guides and factsheets. This is integrated with on-the-ground, local support, provided by a network of over 1,500 volunteers offering one-to-one and group befriending.

For more information, visit our website www.independentage.org

Speak to one of our advisers for free and confidential advice and information. Lines are open Monday to Friday between 10am - 4pm. Call 0800 319 6789 or email advice@independentage.org

Independent Age is also a member of the Care and Support Alliance: a consortium of over 65 organisations that represent and support older and disabled people campaigning to keep adult care funding and reform on the political agenda.

Summary

We broadly support the new measures to introduce greater choice and flexibility into workplace pension saving, which are now being debated in Parliament as part of the Pensions Schemes and Taxation of Pensions Bills.

The pension measures being enacted from April 2015 are welcome because they reflect changing retirement patterns, which the Government argues will see adults looking to decumulate their pension savings ever more flexibly.

However, the success of these pension reforms, which no longer require members of defined contributions pensions schemes to purchase an annuity, depend to a very large extent on the delivery of the new guidance guarantee and public confidence in the quality of guidance on offer.

We welcome that the guidance members of defined contributions schemes will receive will be impartial and free. Although the Chancellor of the Exchequer originally suggested that individuals approaching retirement would in fact receive advice, we understand why standard guidance is going to be provided instead.

We certainly expect some individuals – having received generic guidance – will look to obtain more specialist, regulated financial advice. For many individuals, realistically it is this specialist advice that will help them to make informed choices about whether to take a lump sum; choose some form of drawdown product or stick with the default position of converting their pension savings into an annuity.

The annuities market has been criticised in recent years. A number of reports have highlighted consumer inertia as one significant problem that has meant individuals have not always taken advantage of the best value or appropriate product.

Dame Anne Begg MP, the Chair of the respected Work and Pensions Select Committee, recently observed in the House of Commons Second Reading Debate that: "...often when there is too much choice people are paralysed and end up grabbing at the first thing that comes along rather than the thing which is best (for them). Other commentators have observed that the optimum number of choices consumers might reasonably be presented with is four products, to prevent consumers from feeling baffled by options being presented to them.

Taking this into account, we need delivery partners to provide simple, proportionate guidance which maximises individuals' knowledge of their many different options for using their pension income without overwhelming them with too many complex choices.

Crucially, providers have a responsibility to provide an effective signpost to the guidance being made available from April 2015. We strongly believe the best option would be for providers to proactively "nudge" individuals well in advance of retirement so they are aware the guidance is available and are therefore more likely to take it up. If the onus is on consumers to contact a delivery partner, we worry the take-up of guidance will in the end prove lower.

We welcome the proposed role for the Financial Conduct Authority (FCA) in overseeing the implementation of the Guidance Guarantee and the conduct of delivery partners. This is vital because for these reforms to work, consumers will need to trust the guidance being offered. If there are any problems, in terms of the perceived independence of the delivery partners and the impartiality of partners in terms of the products or options for drawdown they recommend, we worry the new framework could soon lose public support. We therefore recommend the FCA undertake an audit of the scheme in spring 2016, following its first year of operation.

We believe that in implementing the Guidance Guarantee, the FCA should examine how it can be delivered in a way that ensures that people are able to easily access information and advice on their potential care needs and the costs of care in later life.

We hope the guidance guarantee will become a valued feature of financial planning in years to come, and strongly believe that the government and FCA should continue to work to enhance individuals' ability to confidently plan for later life. To this end, the FCA should consider enacting the 'wake up' it has described in its consultation document, highlighting the guidance available to individuals, at a much earlier stage. We agree with *Partnership* that this could occur 24 months in advance of retirement.

Consultation questions

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

Independent Age welcomes the proposed standards. In particular we welcome the headline commitment that guidance is free to all those who access it and that delivery partners are independent, impartial organisations. We welcome the plan that the Treasury will establish an adjudicator for unresolved complaints. It is important that any adjudicator that is established is not a provider of financial guidance or financial products themselves.

Focusing on the content and the guidance delivered, we strongly welcome the proposal that delivery partners will need to take a holistic approach, enabling adults approaching retirement to understand the typical range of costs they might face, including care costs. The guidance will also need to contain simple information about longevity risk and the proposition that most adults will need to make preparations for many more years than they readily assume.

However, we are a little concerned about how individuals are going to be made aware of the guidance and informed that it is in their interests to access it. The consultation document proposes providers should signpost their members to the guidance service, but we believe the Financial Conduct Authority needs to explain how "signposting" will routinely take place. At present the details seem vague.

Furthermore, we believe individuals accessing the guidance service need to be given as much support as possible to prepare for their guidance session, so for example so they can talk through their circumstances with the delivery partner and draw on all the necessary financial information they need to present to the partner to make sense of their options including purchasing an annuity. For many individuals, including adults with an average pension pot of £17,700, an annuity will probably still make more sense than a lump sum. In practice, this means delivery partners need to prompt individuals to bring along comprehensive information about their finances so the options they are being talked through are personally relevant and tailored to them.

In preparation for the guidance session, individuals should be provided with simple, easy-to-understand tips about which information they need to compile so they can make the most of the guidance session. This will also give individuals time to consider what information they are comfortable with sharing, so for example whether they would like to bring information about their fixed costs and their household income. Delivery partners should explain to individuals how the information they have ready to hand and what they bring along to a guidance session could affect the quality of guidance the delivery partner is able to provide.

Finally, we would welcome further clarification on how delivery partners will be chosen and whether individuals will be free to choose between any of the partners from which they would like to receive guidance. We believe it is essential that individuals are not tied to receiving guidance from any single partner and they can choose a preferred delivery partner based on recommendations they have personally received.

Q6: Do you agree with the proposed content of the signposting information? If not, please provide alternative suggestions.

We welcome the proposal that there will no limit on the number of times an individual can use the Guidance Service and we note that this may in fact mean that both delivery partners have multiple queries to manage.

Individuals should get standard signposting information about the Guidance Service that clearly sets out that the Service is both free and impartial and that face-to-face guidance is available alongside telephone and internet based guidance.

There will be cases where an individual's needs' can only be met through the delivery of face-to-face guidance and this option should still be promoted on equal terms. Individuals who are not online or for whom a face-to-face guidance session would be preferable due to reduced ability to act on information online or by telephone should not be placed at a disadvantage.

The Guidance Service should provide people with information they can act on independently once the guidance session has come to a close, without making individual recommendations about individual products or financial advisers to whom they can turn.

However, there may be occasions where facilitating an individual to access the Society of Later Life Advisors (SOLLA) would make sense. The basic rule that must always be followed is that it would be inappropriate for a delivery partner to transfer people directly to a named Independent Financial Adviser or provider of financial products as this may breach impartiality.

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

In the future the FCA should consider placing a requirement on providers to alert individuals there is a guidance service they can access at least 24 months prior to retirement, a timeframe suggested by the Money Advice Service.

Post 2015 the FCA should revisit the timing of the guidance engagement. In common with leading providers of annuity products, we believe consumers should be engaged in the 'accumulation' period about retirement income planning much earlier than is envisaged in this consultation document. A recent PPI Note[1] outlines that in Denmark when consumers are asked to make decisions years in advance of retirement they may make better rational long-term decisions than making a decision when the attraction of an immediate cash lump sum is there.

The FCA should also consider supporting providers to engage their members in at an earlier point where they may be able to make changes that will positively affect their final level of pension savings.

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

We are strongly in favour of the FCA taking action against providers where it has been found that they are indirectly selling products.

[1] PPI Note 66: International retirement systems and annuitisation

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?

This is crucial in order to raise appropriate expectations on the part of adults planning for retirement. If firms refer to the availability of guidance whenever they are communicating with a customer about retirement options, this will address our concern that signposting is being left too late and too close to the date of retirement.

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

We agree with this proposal to give individuals the necessary information so they can exercise choice "on the open market" when they buy an annuity. To this end, we agree that it is necessary that people are always given information on the current value of their pension fund, and any restrictions or other relevant special features.

Q14: Do you agree with the proposal to remove the reference to maximum withdrawals and require a general statement about sustainability of income?

We recognise that one of the changes being introduced ends the requirement that members of defined contributions schemes convert their pension savings into an annuity.

While we welcome this, individuals must be able to access clear guidance that that ensures they understand the potential impact of making withdrawals over time.

Supporting this, an individual statement on the sustainability of income – including any tax implications – will be an essential feature of any report.

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?

Even given the removal of the requirement that individuals should ensure their fund lasts for their lifetime, we believe that the projections of annual income in retirement and projections of the total fund remain useful and therefore this rule should not be amended.

James Holloway, Policy and Research Officer