



Retirement reforms and the Guidance Guarantee

Introduction and general comments

1. We welcome the opportunity to respond to this consultation on the FCA's proposals on standards for delivery of the Guidance Guarantee, the levy that will fund it, and the implications of wider retirement reforms for firms' behaviour and communications with customers.
2. As the UK's financial capability charity, we believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.
3. Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.
4. We believe that financially capable people are on top of and make the most of their money in these 5 key areas:
 - Planning (including budgeting)
 - Saving
 - Debt
 - Financial services products
 - Everyday money (including wages, cash, bank accounts)
5. We welcome the principle behind the introduction of the Guidance Guarantee that consumers will need assistance to navigate the new retirement landscape. The decision around how to use a pension pot is an extremely complex and important one, and if it is made poorly it can cause significant and long-lasting detriment. It is also a decision that will inevitably become more complicated for the vast majority of Defined Contribution savers as current tax restrictions are removed.
6. However, it is important that, in designing and setting the standards for the guidance, people's financial capability is not overestimated. A recent survey from the Money Advice Service found worrying levels of misunderstanding about financial terms -

including, pertinently, 44% who did not know what an annuity is¹. It is vital for the avoidance of serious consumer detriment that policies that connect to financial capability are based around realistic assessments of people's levels of knowledge and ability to manage their money.

7. We have serious concerns that in practice the guidance will be very limited, and will only provide individuals with basic information about different products and some things they need to consider (for example, that they will need to consider the impact of their decisions on a spouse). While this is likely to be helpful information for many people it is unlikely to be *enough* to enable them to make informed decisions, particularly in a more complex retirement landscape.
8. Unless the guidance can give consumers meaningful information that is tailored to them and their circumstances and that helps them make a decision (not just 'understand their options'), it will be of very limited value. It will also lead to confusion among those consumers who do not go on to seek further, regulated advice (including those with smaller Defined Contribution pots, for whom regulated advice may be prohibitively expensive). These consumers will then be at severe risk of making poor or relatively uninformed decisions, with consequences for both the individual and society more widely.
9. We recognise the tight deadline that the FCA is working to on this issue, but the lack of detail in this consultation makes it very difficult to comment on the standards. The detail, particularly around the content of the guidance session, is crucial to its success, but it appears that either this will be determined without public consultation, or that the high-level principles in this document will not be clarified.
10. Neither of these outcomes is sufficient. The detail of how far a delivery partner can go will greatly affect the usefulness of the guidance, so deserves scrutiny and comment from a range of stakeholders. If none is to be provided, it will lead to delivery partners 'playing it safe' given the absence of a clear perimeter, which will reduce the guidance to the provision of very basic information.
11. We also recognise that the FCA's setting of the standards is restricted by Government's decision to prevent the guidance from recommending products, providers or advisers. But it would have been helpful had the FCA explored, within these restrictions, exactly how far the guidance can go, and the furthest point at which this boundary could be set.
12. There are, therefore, several areas in which clarity is sorely needed. We have made comments as far as possible on the high-level standards, but much hinges on the as-yet unpublished detail. As the timescale for implementation of the guarantee is extremely challenging, this needs to be determined as soon as possible so that the service is sufficiently prepared for its implementation from April 2015:
 - The boundary of the guidance needs to be set out in greater detail, to assist both consumers and delivery partners. This should be set as permissively as

¹ <https://www.moneyadviceservice.org.uk/files/290814-jargon-finalwithoutregionalstats.pdf>

is compatible with Government's intention as outlined in its response to Freedom and Choice in Pensions.

- There is also a need for greater clarity around how the FCA intends to monitor compliance with the standards.
- The precise roles of each of the delivery partners remain unclear.

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

13. We make some comments on the proposed standards below, although they seem broadly appropriate given the constraints set by Government. The FCA should also consider including an additional standard specifying that delivery partners must have particular regard to the accessibility and appropriateness of their service for vulnerable consumers. We anticipate that this would particularly affect the communications, the content of the session, and the guidance output, but the FCA should determine precisely how this would apply across the standards.

Professional standards

14. The FCA is right to stipulate that both those involved in direct delivery of the guidance and those designing web-based tools should be competent and have sufficient knowledge and expertise. However, this is a very broad standard – if the FCA does not intend to specify how “sufficient knowledge and expertise” is to be defined, it is hard to see how it could monitor compliance with this standard. We would welcome greater detail on this point.
15. Additionally, the professional standards for direct delivery appear to apply only to those who deliver the guidance over the phone or in person. This should be amended to clarify that they also apply to someone delivering the guidance through a real-time web-based service such as webchat. A webchat service only differs from a phone or in-person service in the channel through which it is provided, so the same professional standards should apply.

Content of the guidance session

16. It is not clear what constitutes the ‘key facts and consequences’ of an individual’s options, and specifically around the extent to which this will interact with the financial information an individual will be asked to provide. For example, would a delivery partner be, within the scope of the guidance, able to use the financial information to provide an ‘income estimate’ for different options, similar to the projections given by pension providers? As financial information about the individual’s pension is part of the information the delivery partner will request, it would seem counter-intuitive if such estimates couldn’t be given, but the proposals are not clear about this.

17. If not, the limit of the guidance session's content would seem to be providing features of products, and a list of things an individual should consider based on their circumstances, which as we argue above has value, but will not empower consumers to actually make an informed decision. As the FCA itself notes in paragraph 4.39, most people struggle to translate a lump sum into an annual income, yet it is not clear whether the guidance will actually address this. Additionally, if the guidance is to be this limited, the information-gathering stage of the process seems unnecessary and is likely to cause frustration among both pension providers and individuals.

Next steps

18. As part of the standards for setting out the 'next steps', the delivery partner should make clear that the individual is entitled to additional guidance sessions, but that the scope, purpose and limitations of any future session will remain the same.

Guidance output

19. The record of the guidance should include some information about the customer's circumstances, which at a minimum should be the total value of their pension pot(s). This will also be determined in part by the content of the 'key facts', as we outline above – if these can include an illustration of annual income based on the size of an individual's available pension savings, these illustrations should also be included.
20. Particularly for those who access the guidance online, a copy of the record should be made available for the consumer's future reference. We also would expect this to be relevant for the FCA's monitoring processes.

Do you agree with the proposed use of the FCA periodic fees framework to collect the retirement guidance levy?

Do you agree that firms in the proposed five retirement guidance fee-blocks only should contribute to the retirement guidance levy?

Do you agree that firms in the remaining fee-blocks set out in Table 3.2 should not contribute to the retirement guidance levy?

Do you have any comments on the three options for allocating the overall levy across the five retirement guidance fee-blocks?

21. We agree with the proposals made around using the periodic fees framework to collect the levy, and which fee-blocks should contribute.
22. In the short-term we believe allocating the levy across retirement guidance fee-blocks based on FCA AFR allocations (Option 1) is the most appropriate, but the FCA

should work with industry and pension providers to estimate who benefits and to what degree, with a view to allocating the levy based on this in future.

Do you agree with the proposed content of the signposting information?

23. As well as the information proposed in the consultation, the signposting information should be clear that customers can access the guidance more than once. If this isn't included, there is a risk that some people will delay accessing the guidance for fear of 'using up' their entitlement to the service, which could lead to them making damaging decisions in the period before they access it.

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

24. The FCA should be active in working with industry and the delivery partners to develop a standardised template for the provision of information about an individual's pension fund as soon as possible. This would have benefits for both consumers and delivery partners.

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

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?

25. We agree with both of these proposals.

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?

26. We agree that customers should be reminded of the availability of the guidance in any communication about retirement options they receive. However, we would also urge the FCA to reconsider its position in 4.45 that firms will not be required to check if a customer has received the guidance before buying a product or taking cash. Although we believe that customers who have not received the guidance should still be able to take a decision, a reminder at this stage would be a final 'back-stop' to ensure consumers are aware of the guidance.

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

27. We agree with this proposal.

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

28. Contrary to paragraph 4.44, we believe that firms should reconsider their default lifestyling strategies at an earlier stage, based on the retirement plans of their customers. 'Waiting and seeing' what decisions their customers commonly take before reconsidering the default investment strategy is potentially dangerous given the number of people who retire each year – it could take several years before patterns of decisions become clear, particularly as consumer behaviour could change significantly as they and the market adjust to the increased choices available. We welcome the FCA's comment that firms should be encouraging their customers to engage in thinking about their retirement plans and options well in advance, and it is this engagement that should drive the default lifestyling strategies.
29. We also have a comment regarding paragraph 4.49. In our view, customers who take no action and do not respond to any communications should not be automatically annuitised. While this might have been an appropriate default option before the reforms were announced – because the majority of customers would have effectively been required to purchase an annuity in any case – it would now represent an active choice between options.
30. A fairer option would be to override any such default clause and require firms to simply leave the pension pot invested until the customer makes contact. Given that these clauses would have been entered into when a decision around pensions was effectively a decision about what pension to buy, the detriment the FCA has previously identified in relation to the annuities market, and the possibility that annuity rates will drop further once the reforms are in place, this seems like the most appropriate option. We also believe industry, in collaboration with the FCA and consumer groups should develop a 'default' option for those consumers who do not wish, or are not able, to navigate the new retirement landscape.

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

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

Do you agree that there do not need to be any changes to the key features contents rules?

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?

31. We agree with these proposals. The projection of an annual income in retirement and a projection of the total fund is particularly useful for consumers, and the requirement to provide one should remain.

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

32. We agree with this proposal. As we argue in paragraph 26, providers should also be required to refer to the availability of the Guidance Service at this stage.

33. Firms should be required to check whether the decision a customer is making aligns with their known circumstances, contrary to paragraph 4.46, and alert them to any potential conflict to ensure decisions are as informed as possible. However, this is another area where greater clarity on the limits of the guidance would be valuable. Paragraph 4.46 implies that there will be some form of 'outcome' of the guidance session to which a customer's subsequent decision could be compared. At present it is not clear what sort of information an individual will be provided with as an output of the guidance session, and therefore it is not clear how the decision made by a customer could 'align' with this.

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

34. We have no comment to make on this.