



The Money Charity submission to the Retirement Income Market Study

Introduction

1. As the UK's financial capability charity, we welcome the opportunity to make a submission to the Retirement Income Market Study.
2. 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 five key areas:
 - Planning (including budgeting)
 - Saving
 - Debt
 - Financial services products
 - Everyday money (including wages, cash, bank accounts)
5. People's decisions around their pension pots are probably the most significant engagement with financial services products they will ever have, and have clear

implications for their planning during retirement. Our submission is therefore based around how well the current and new market landscapes affect individuals' ability to stay on top of their money.

6. We make below a number of points that we believe should be taken into consideration in the study regarding consumer vulnerability, likely behaviour and advice and guidance in the new retirement income market landscape.
7. In summary, these are:
 - Consumer vulnerability will be increased as new products that are unfamiliar to consumers come to market;
 - This can be mitigated by effective guidance and advice, both regulated and unregulated, but this has to provide meaningful advice on an individual's options; and
 - Some consumers will remain unengaged with their pension savings, so there will be a need to develop a default recommendation to protect these individuals.

Customer vulnerability and likely behaviour

8. There are several factors in the new market landscape that are likely to heighten customer vulnerability. The first is that most individuals will not have previously engaged with products other than annuities because of the tax treatment of non-annuitisation - and as the FCA's thematic review has found, even this engagement was limited in terms of shopping around or awareness of better options such as enhanced annuities.
9. The second is that many of these products will be new to the UK market, or be little-used at present, limiting even engaged consumers' existing knowledge of their risks and benefits. This vulnerability applies to individuals of all levels of financial capability.
10. Thirdly, as any new product is introduced to a market, or its use expanded, it takes some time for issues around its structure or appropriateness for certain individuals to be addressed. For decisions involving such a large amount of money, and potentially affecting consumers for decades, this is a considerable risk, even without the spectre of a new mis-selling scandal.
11. Together these factors raise the prospect of relatively uninformed consumers making long-lasting decisions regarding a bewildering, complex and new range of products - with clear risk of significant consumer detriment.
12. Research by the Pensions Policy Institute has found that in countries with lower levels of annuitisation, income drawdown products are generally favoured¹. Whether the UK market for retirement products develops in this way remains to be seen, but given current annuity rates, such products could provide a better option for retirees if

¹ www.pensionspolicyinstitute.org.uk/briefing-notes/briefing-note-66---freedom-and-choice-in-pensions-comparing-international-retirement-systems-and-the-role-of-annuitisation

the remainder stayed invested in an account with higher returns. However, this is dependent upon consumers realising this and taking action, which relates to the role of advice and guidance.

13. We also believe that there is a risk of individuals simply placing their savings in a low-interest instant access savings account (effectively creating their own income drawdown product but with low rates of return). Advice and guidance has a role to play in combatting these risks by improving consumer awareness of their options, but so too does the development of a default recommendation for retirees who do not engage greatly with their pension savings. While this would not necessarily be the best option for any given individual, it would be an option likely to be at least relatively appropriate for the majority of individuals in a similar situation.

The role of advice and guidance

14. At present, uptake of regulated financial advice regarding pensions is limited. Earlier this year the Personal Finance Society found that 58% of 55 to 64-year-olds had never accessed regulated financial advice, nor had 55% of those aged over 65².

15. This, again, is likely to be in part because in the current tax regime for pensions most individuals' decision is limited to a question of which annuity to buy. But with large numbers of people suddenly having far more options around their pension pots, advice and guidance is crucial if the risk of consumer detriment is to be minimised. We welcome Government's commitment to a guidance guarantee for individuals approaching retirement, but this has to be properly implemented. In our response to HM Treasury's consultation document *Freedom and choice in pensions*, we highlighted that the guidance guarantee must fulfil three criteria if it is to be effective³:

- It must be tailored to an individual's situation;
- It must come to some form of conclusion; and
- It must provide ongoing support throughout retirement.

16. It is not yet clear what form the guidance guarantee will take, but if it is to be unregulated rather than regulated advice, it still needs to provide consumers with indicative figures around expected or possible pension income so they can determine the most appropriate type of product for them.

17. This is especially important given the unique nature of pension saving. In any other context, savings of £100,000 would be considerable, but if a man retired at 65, took the full 25% lump sum, and used the rest to buy a standard, single-life annuity, it would only provide a monthly income of around £350⁴. The guidance guarantee has a clear role in informing consumers about the likely actual value of their pension pots if they use it to purchase different types of product.

18. Once the decision around type of product has been made, there will then be a role in many cases for regulated advice to help an individual decide on a specific product. The Money Advice Service's proposal for a directory of retirement advisers⁵ could

² www.thepfs.org/knowledge/policy-and-public-affairs/articles/rdr-consumer-report-2014/28904

³ <http://themoneycharity.org.uk/response-consultation-freedom-choice-pensions/>

⁴ <http://www.legalandgeneral.com/annuities/pension-annuity/annuity-calculator/> (accessed 15/07/14)

⁵ https://www.moneyadviceservice.org.uk/files/mas_retirement_adviser_consultation.pdf

ease the journey to regulated advice, particularly if linked to the guidance guarantee, and improve decision-making.

19. Even with considerable effort by industry, consumer groups, Government and regulators, there will be some consumers who do not engage with their pension pots, particularly as the decision becomes more complex with new products to consider. Therefore it is vital for industry to develop and implement a 'default option' for these consumers.