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Pensions Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Dear all

Adapting our requirements for a changing pensions market

I am writing on behalf of the Association of Consulting Actuaries in response to the consultation on adapting our requirements for a changing pensions market.

Overall, we are supportive of the proposed regime and consider it to be a sensible and proportionate framework that balances outcomes-focused regulation, the Consumer Duty, and the need to enable effective and engaging digital tools for consumers.

We particularly support the emphasis on flexibility, clear communication, appropriate governance and regular review, which we believe will be critical to ensuring consumer understanding and avoiding confusion, especially where individuals hold multiple pension arrangements. We also do not consider that the proposals will inhibit technological innovation,, provided tools are appropriately governed.

In relation to non-advised transfers, we note potential risks to transfer timescales and welcome consumer testing of the proposed processes.

We are supportive of the overall consumer benefits identified in the cost-benefit analysis and consider that, while there will be costs to providers, these appear proportionate given the importance of helping consumers make informed decisions at retirement.

We would be pleased to engage further with the FCA as these proposals are developed. Our detailed comments on your questions are set out in the Appendix.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In this event, please contact me at tessa.page@mercer.com.

Yours sincerely

Tess Page
Chair of DC Committee
On behalf of the Association of Consulting Actuaries Limited

APPENDIX

Specific consultation questions

Question 1: Do you agree with the application and scope of our proposed regime as set out above? If not, what are the challenges for firms or unintended consequences of this approach?

Yes. We agree with the proposed application and scope of the regime and do not identify any material issues or unintended consequences arising from the approach set out.

Question 2: Do you agree firms should have flexibility to present either a deterministic, stochastic or both types of simulation based on the understanding and engagement needs of their target consumers?

Yes. We support allowing firms flexibility to use deterministic, stochastic, or a combination of methodologies. In particular, some consumers may prefer a simple deterministic simulation whereas more financially aware consumers may engage better with a stochastic simulation that estimates probability of possible outcomes. The context and wider communication approach will be important. While one could argue for firmer guidance around how firms should identify consumer needs, we believe this could be overly complicated and restricted and prefer a principles based complaint with Consumer Duty, as proposed.

Question 3: Do you agree firms should have flexibility to present deterministic simulations either individually (with at least a higher and lower option), or multiple simultaneously?

Yes. We agree there should be flexibility in how deterministic simulations are presented. However, from a consumer perspective, it will be important that outputs are presented clearly and consistently to avoid confusion, particularly where consumers hold multiple pension arrangements and may therefore receive a series of illustrations from different schemes and providers.

Question 4: Do you agree with our proposed approach to the calculation and presentation of growth rates? If not, why not? Are there consumer risks with this approach that should be addressed through further requirements (such as setting a maximum cap on growth rates)?

Yes. We agree with the proposed approach to growth rates. We do not believe a maximum cap is necessary, provided assumptions are appropriately justified, governed, and subject to regular review. Providers will be incentivised to ensure that the assumptions are reasonable and not overly optimistic, given the likely scrutiny on such assumptions and the fact that they may also factor into forward-looking investment return metrics under the new VFM framework, once implemented.

Question 5: Do you agree with our proposals for stochastic models? If not, why? If so, why?

Yes. The proposals for stochastic modelling appear sensible and proportionate, provided the underlying assumptions and outputs are robust and clearly communicated.

Question 6: Do you agree consumers should be given the choice to see and interact with the decumulation proposals set out above? If not, why? If so, why?

Yes. We agree consumers should be able to interact with and adapt decumulation inputs. This flexibility is important to support engagement and allow consumers to explore different retirement outcomes.

Question 7: Do you agree with our communications proposals? If not, why? If so, why?

Yes, we agree with your proposals.

Question 8: Do you agree with our record keeping and regular review proposals? If not, why? If so, why?

Yes. We consider the proposals appropriate to support good governance and consumer outcomes.

Question 9: Does our proposed regime (for pension simulations in interactive, digital tools as a whole) strike the right balance between relying on outcomes-focused rules, the Consumer Duty to enable more effective and engaging tools and specific rules to deal with harms? Are there any areas where we need more specific rules to deal with potential harms, such as lack of consistency across different tools or pension projections in the consumer journey?

Overall, we believe the proposed regime strikes a sensible balance. Providers responsible for designing and governing tools will need to ensure regular review of outputs and consumer feedback to identify and mitigate potential harms and ensure tools remain effective over time.

Question 10: Does our proposed regime (for pension simulations in interactive, digital tools as a whole) support the adoption of technology, including AI? Are there any proposed rules which may inhibit technology adoption?

We do not believe the proposals should inhibit technological innovation, including the use of AI, provided appropriate governance and controls are in place. Our observation is that providers are already exploring the potential opportunities of AI within their overall proposition, in a risk-controlled manner. It will however be important for the FCA to monitor AI and related technological developments over time.

Question 11: Do you agree with our proposed approach for simulations in a PDS digital tool? If not, why not?

While the ACA does not and will not offer PDS digital tools, the proposed approach appears appropriate.

Question 12: Do you agree with the proposals for how the new regime will apply to digital tools that include a broader range of retirement income? If not, why not?

Yes, we agree with your proposals.

Question 13: Do you agree a transition period is needed to effectively implement the proposed regime for simulations in digital tools? If so, is 12-months an appropriate timeframe?

We consider that providers will be better placed to comment on this point, but in our view a 12 month period should be very achievable for any modern firm with strong governance and operational infrastructure in place.

Question 14: Do you agree with our proposal to exempt projections provided in SMPIs on how pension members can give themselves more money, as set out in DWP's statutory guidance? If not, please explain why.

Yes, we agree with your proposal.

Question 15: Do you have any comments on the proposed scope and trigger for our non-advised transfer rules?

Providers involved in transfer processes will be better placed to comment in detail. However, we note a risk that additional requirements placed on ceding schemes could negatively impact transfer timescales. We therefore welcome the proposal to test these processes with consumers.

Question 16: Do you agree with our proposed approach to obtaining the consumer's consent? Is consent the appropriate lawful basis for processing the data? Do you foresee any practical challenges with our approach? If so, how might they be overcome?

Yes. We agree with the proposed approach to obtaining consumer consent. Providers offering these services will be best placed to assess any practical challenges.

Question 17: Is our proposed acknowledgement process an unnecessary administrative step? Can issue and receipt of the information request be considered instantaneous? Are technological solutions available to make this possible?

We are unable to comment on this question.

Question 18: Do you consider 10 working days a reasonable timeframe for ceding schemes to respond to information requests? If not, why not?

We are unable to comment on this question.

Question 19: How might technology affordably support adoption of this timeframe?

We are unable to comment on this question.

Question 20: Do you agree with our proposed approach to presenting information back to consumers?

We are supportive of the proposed approach, while recognising that providers will need to consider the practicalities of implementation.

Question 21: Do our proposals capture the appropriate benefits and features for consumers to consider ahead of transfer? Should any be added or excluded? If so, please explain why.

Yes. We believe the proposals capture the key benefits and features consumers should consider ahead of a transfer.

Question 22: Can this information be extracted and returned to the engaging firms in 10 working days? If not, what are the challenges and how might they be overcome?

We are unable to comment on this question, providers delivering these services will have more direct insight.

Question 23: Do you agree with our proposed record keeping requirements? Are there any additional types of information that firms should be required to retain as part of this process?

We believe the proposal for recording keeping seems fair and reasonable.

Question 24: Do you agree with our proposed approach to incentives? Please explain your answer.

Yes. We agree with the proposed approach. As noted in the consultation, it will be important to monitor incentives to ensure they do not undermine the policy intent or become disproportionate.

Question 25: Do you agree with our assumptions and findings as set out in this CBA on the relative costs of the proposals contained in this consultation paper? Please give your reasons.

Yes. We agree with the findings. Providing consumers with clearer, more meaningful information is important to support better decision-making, particularly given the potential financial impact of poor retirement choices

Question 26: Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

We support the assessment of consumer benefits. While tools may initially appear more complex, improved engagement and provider support should lead to better outcomes over time. We recognise there will be costs to providers, but these appear proportionate and may support longer-term engagement and income generation.

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