ASSOCIATION OF
aca
CONSULTING ACTUARIES

Regis House, First Floor (126/7), 45 King William Street, London EC4R 9AN
Tel: +44(0)20 3102 6761 E-mail: acahelp@aca.org.uk
Web: www.aca.org.uk

30 January 2015

Eve Cinnirella
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

RetirementIncomeMarketStudy@fca.org.uk

Dear Sir or Madam

Retirement income market study

Please find attached our response to your consultation on the above matter.

We hope that you find our comments of assistance and would be happy to discuss them further if that is helpful. If you would like to discuss our comments further, please contact me through David Robertson of the ACA secretariat on 020 3102 6761 (david.robertson@aca.org.uk).

Yours faithfully

Hugh Nolan

Hugh Nolan
Association of Consulting Actuaries

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ACA Comments on consultation

1. We propose to require firms to make it clear to consumers how their quote compares relative to other providers operating on the open market. Please set out your views on:

1A: Whether the proposal could contribute to addressing the concerns we have identified?
Yes, clarity on comparing quotes easily should empower consumers to make more informed decisions.

1B: How could the proposal be best implemented, and/or how could practical issues be resolved?
There is a natural temptation for providers to be selective in illustrating quotes from other providers and a prescriptive framework could give greater objectivity. We believe the best approach would be to establish appropriate principles and monitor compliance with these.

1C: What information could be feasibly provided over the phone and in writing?
Information given by phone may well be more easily understood by consumers, with the interactive conversation giving an opportunity to check understanding and seek extra information if anything is unclear. However, some people may misunderstand and take inappropriate action so any information given by phone should be confirmed in writing (ie there should be a requirement along the lines of the Guidance Guarantee for the conversation to be followed up by a written record).

1D: How the proposal could be applied to other retirement income products, for example income drawdown?
It would be hard to specify precise rules to cover the differences between such products, especially as new products are developed over time following the introduction of the "Freedom and Choice" reforms in April. The danger is that the disclosure rules could inadvertently favour one product over another (e.g. an income drawdown policy with a higher level of risk might disclose a higher expected level of income).
However, we believe it is important that this aspect is addressed for SIPPs and income drawdown products to reduce the risk of future mis-selling claims around products that will become open to more consumers – for example, some providers that offer good annuity broking services to help consumers access / understand external annuity options may only provide information / access to their own SIPP. Suitable "warnings" are needed to ensure consumers consider their options in full. Adopting a broad principles-based approach would therefore seem particularly sensible here.
Given the FCA's concern regarding complex charges within future drawdown products, over time, it could be useful to consider standardised approaches to showing charges and risk ratings for certain products.

2. We recommend to both the pensions guidance service and firms to take into account framing effects and other biases when designing tools to support consumer decision-making. Please set out your views on:

2A: Whether the proposal could contribute to addressing the concerns we have identified?
Yes, it is clear that framing effects and other biases have a major impact on the decisions made by consumers so allowing for these factors when designing tools will support good decision-making and positive outcomes. The success of automatic-enrolment demonstrates the benefits of 'nudging' people in the right direction.

2B: How could the proposal be best implemented, and/or how could practical issues be resolved?
We again believe that a principles-based approach is necessary here, monitored by the FCA to ensure compliance and best endeavours. Shopping around is likely to be in the consumer's interest but does not benefit the current provider, giving them a powerful incentive to discourage the desired consumer behaviour. The regulator will need to apply some judgement to determine whether any shortcomings in communications are genuine failings.

2C: How the proposal could be applied to UFPLS or other products?
Adopting a principles-based approach should make the proposal applicable to the widest possible range of products, allowing a reasonable comparison even when comparing apples and oranges. This is also important where trust-based schemes that are not necessarily under the remit of the FCA consider offering drawdown facilities.

3. We will work with Government to develop an alternative to the current wake-up pack. Behavioural trialling of the wake-up pack would allow us to assess the impact on consumer's awareness of their right to shop around, and the number of people who exercise their open market option. We would like to hear from any firms that are interested in assisting us with this process. Please set out your views on:

3A: What should be the proposed content of future at-retirement communications?
At-retirement communications should be kept as brief and simple as possible to give consumers the maximum chance and incentive to read, absorb and understand the information provided. This should include details of information and guidance available (e.g. Pensions Wise, the MAS annuity comparison website), quotes on the options available from the existing provider (with a comparison to other providers) and a short, simple summary of the options available (e.g. annuity, income draw down, cash withdrawals).
We note the FCA's interim report flags that consumers will be able to change course over time and their retirement decisions do not need to be irreversible. The FCA may wish to consider proposing at least 5-year information reminders to consumers of reversible products with the potential to access the Guidance Guarantee again – this may help reduce apathy or fear of making changes.

3B: Whether there is any other significant information that should be included in these communications? If so, please state the information required and why it should be included.
We believe that these communications should include illustrations on longevity and sustainable income levels. This information should be simple but sufficient to help consumers understand likely outcomes and risks. For example, the longevity information should not only include an estimate of life expectancy but should also highlight the likely life span of say the top 10% (or the proportion of people expected to live for say 5 or 10 years longer than average). The Association of Consulting Actuaries (ACA) is uniquely well placed to help with this and would be happy to do so.

3C: Which aspects (if any) of the ABI Code we might consider incorporating into our rules in the pensions and retirement area. Please set out any additional measures that are not currently in the ABI Code that should be incorporated into our rules.
It seems sensible to consider all aspects of the ABI Code before setting new rules, albeit that some will obviously be worth incorporating while others will be of very questionable benefit. There are no specific aspects that we would wish to draw to your attention in this regard.

4. In the longer term, we recommend that a 'Pensions Dashboard' is created. Please set out your views on:

4A: Whether the proposal could contribute to addressing the concerns we have identified?
A 'Pensions Dashboard' giving consumers the opportunity to view all their pension savings would help address some of the concerns identified. We are however somewhat sceptical that this benefit justifies the likely costs of creating such a Dashboard.

4B: Whether, beyond those we have identified, you foresee any difficulties implementing this proposal?
The scale of this task is absolutely mammoth and it is fraught with difficulties. The Dashboard would have to capture State benefits, multiple DC pots and Defined Benefit (DB) information. The latter will be non-standard with significant variation in terms for retirement age, dependant's pensions, increases and so on even before considering hybrid schemes, risk sharing schemes etc. Savings outside pension schemes would also need to be included for a full picture, including ISAs, property (not only their home but also second properties and buy-to let portfolios) and even perhaps anticipated inheritances. The challenge of collecting and presenting all this information in a way that facilitates good decision making by individual consumers may diminish any beneficial impact on outcome.
We note the FCA has considered input from other countries that have successfully adopted such tools; however we are concerned that other countries may not have as complex a legacy of pension provision as the UK. We would therefore welcome further detailed investigation into this option before making decisions.

4C: How this proposal should be implemented and by whom?
Frankly, we are not convinced that this proposal should be implemented without further thorough investigation into feasibility within the UK environment. If it is, the extremely wide range of contributors seems to dictate that it would need to be a central Government initiative requiring standardised submissions for collation from occupational pension schemes, banks or whoever. The FCA would be an obvious candidate for the management of this initiative.
It might be more cost-effective to implement an alternative approach and establish a DIY model that allows consumers to populate their data and track information on a single source, with some possibly even being collated centrally for them where the costs and complexity is not prohibitive (eg a State pension modelling tool with the facility to add details of other savings).

5. We will continue to monitor the market and are seeking views on whether there are any particular aspects (in addition to those set out below) that we should monitor. Please set out your views on:

5A: The proposed monitoring activities set out above.
We welcome the proposed monitoring and agree whole-heartedly that it is entirely appropriate to watch developments carefully.

5B: Any additional aspects that we should consider monitoring.
At this stage, we do not have any specific suggestions on additional aspects that should be monitored.

6. We would welcome your views on the following questions:

6A: Do you agree with the conclusions we have drawn from our analysis?
We do broadly agree with the conclusions you have drawn from your analysis.

6B: Are there any reasons why our provisional findings should not become final?
No. While we have reservations on some of the findings and proposed remedies (in particular the practicalities of the Pensions Dashboard), none of these invalidate the provisional findings.

6C: Are our proposed remedies likely to be effective in addressing the issues we have found?
We believe that the package of proposed remedies is likely to be effective to a considerable degree but we are concerned that they will inevitably fall short of full effectiveness. Nevertheless, the longest journey starts with a single step and we welcome the constructive suggestions on tackling these issues.

6D: Are there any other remedies that we should consider?
Consumer decisions and understanding on these complex and important financial matters would also be improved by a concerted programme of financial education, starting at school level and continuing throughout various life stages. We recognise the efforts that are already being made in this area but believe that enhanced awareness from consumers may well be the single most effective measure in tackling the problems of inertia, mis-selling, limited competition and fear.
We believe that employers should be given greater financial incentives to provide employees with financial guidance at key points. So for example, a much higher allowance (£500-1,000) at age 50 and the date of actual retirement than the present £150 could be provided. This would enable employees not only to properly understand their options at retirement but also prepare well in advance for retirement.

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA is a full member of the International Association of Actuaries (IAA).

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