Written evidence from Standard Life Aberdeen (APS0019)

About us

Standard Life Aberdeen (SLA) plc is one of the world's largest investment companies, created in 2017 from the merger of Standard Life and Aberdeen Asset Management. We provide asset management, investment platforms and financial advice services to help savers manage £534.6bn[1] of assets. We are headquartered in Scotland and listed in London, with around 6,000 employees in over 50 locations worldwide.

Executive summary

Through our adviser platforms we have seen a significant increase in demand for retirement advice following the pension freedoms. As such we welcome this inquiry and believe we are well placed to respond on how the advice market is currently working, the demands and needs of clients, and where inefficiencies in the existing environment are reducing effectiveness. This is supported through direct experience of providing advice through our own advice business, 1825.

We are pleased the Committee is looking at the effective use of retirement savings to maximise customer need in what may be the biggest financial challenge most consumers face in their lives.

We note with interest the questions asked and would make the following key points:

1. We would encourage the committee to recognise that **a range of retirement products is already available and this caters for the vast majority of consumer needs**. So attention should be focussed on the other areas of the inquiry to maximise potential for immediate benefit. While demand for alternatives which combine the benefits of different products into one product may exist, the financial costs to the consumer of providing such a blend would lead to unacceptably high charges due to high costs of attempting to provide financial guarantees on unmatched investments.

2. Given the key products already exist to meet customer needs, the most important question is what can we do to **help customers understand their options and develop a plan** to determine what mix of products is right for them, and

3. To support customers by **making advice more affordable, desirable and accessible**.

1. Do people have access to a range of pension options to meet their needs for later life and how might these needs change in future?

[1] As at 9 March 2020

Yes. People have two key needs in retirement and most will likely need a mix of both:

a. insurance guaranteeing they will never run out of income for their basic needs (currently served by State Pension and annuities) and/or
b. flexible access giving the ability to take money when it's needed to cover varying lifestyles and goals (drawdown and other long term savings non pension products).

There is a desire from consumers for the ability to invest for growth and flexibility <u>while</u> having a guaranteed income for life in the same product. A combination of both of these in one product is unrealistic in the current economic environment and will not deliver value for money, as the two objectives – an insurance risk pooling approach (annuity) and a desire to own and manage the money (flexible drawdown) are at odds with each other. Joining two products with different goals would likely lead to excessive charges so customers are better served using a mix of different products for their different needs.

We therefore encourage the Committee to focus not on products themselves, but on how to enable customers to best understand their options including combining products to fit their retirement plans. The most effective way to do this – and to tackle the growing 'advice gap' – is to both increase the accessibility of financial advice and improve guidance available.

Advisers – when developing a suitability report - help customers understand the need for insurance to meet basic needs and a desire to access savings flexibly. Part of this report will include a review on the client's capacity for loss, which is likely to focus on the minimum level of income they can comfortably live on. Advisers often use the State Pension or DB pensions to cover these needs while accessing other savings to meet the flexibility needs. It is more likely that customers will favour flexibility early in retirement when they have a greater need to adapt their plan for changes. Meanwhile, later in retirement there is generally less need for flexibility so, as we have seen in the United States, at that point it is more common for advisers to look at annuities. Therefore the mix of products is not simply about a choice at the point of retirement but also about how an adviser can support customers through adapting the products to meet changing needs over time.

Uncrystallised Funds Pension Lump Sum (UFPLS)

We propose this product, introduced within the Pension Freedoms, is phased out. UFPLS was introduced to make it easier for some pension providers to allow customers to take money out without building a full drawdown product. But five years into the freedoms the majority of providers will have now built a drawdown offering, compared to which this particular solution has substantial drawbacks which could lead to poor outcomes:

i) The fact that UFPLS supports access to cash as regular lump sum withdrawals, rather than setting up regular income withdrawals, could embed in consumers' minds that dipping into their pension to take money is a good idea. This runs contrary to the key aim of considering how to make their pensions last for the rest of their lives, so creates an unnecessary negative behavioural bias.

ii) Customers using UFPLS risk paying more tax than if they used drawdown. This principally applies to those who are earning and paying into a workplace scheme while withdrawing a sum for other reasons. Since part of the UFPLS is treated as income it is taxable at the marginal rate. For most people that is higher while still working so they would be better served accessing part of their tax free lump sum and deferring taking income until they stop earning and therefore will likely have a lower marginal tax rate. This can easily be facilitated through drawdown and does not stop customers being able to take further tax free lump sum withdrawals later.

iii) Having Pensionwise talk through two similar options for taking money (UFPLS & drawdown) creates confusion for customers. It would be better to focus on one flexible drawdown solution that allows them to take money when they need it, while highlighting the option of a 'guarantee' in the form of an annuity. Simplifying these options would help customers focus on what really matters: determining a plan for what income they need, when, and whether they have enough.

2. **Are there other pension options, not currently available in the UK, which would better meet people's needs in later life?**

   No.

3. **Are there barriers to providing other pension options which meet a need and are not currently available in the UK?**

   No.

4. **Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?**

<u>Financial advice</u>
Customers have good outcomes when they take advice. Advisers are in an excellent place to support customers to make best use of their retirement savings which for many will be the most important financial decision (or ongoing set of decisions) in their lives. The challenge is in the **desirability** and **accessibility** of advice to support these good outcomes.

The former needs to be addressed by better demonstrating to consumers that they are likely to see sizeable changes in their income needs throughout retirement and may need support with these. Examples include higher initial purchases early in retirement leading to future lower income requirements, changes in liquidity from downsizing, or higher later life care costs. We especially urge the Committee to consider the importance of these changing circumstances because they are a certainty for all retirees. On the latter, we recognise the cost of regular annual advice will be too high for many consumers, and suggest the following regulatory interventions to make advice more affordable.

- **More flexible advice models**

One approach is for customers to take advice only when they need it. For this to work people need to understand their needs and that these will change over time, at which point they can then seek help. Current regulation discourages advisers from setting up a **pay-as-you-go** relationship with customers as any ongoing retainer under PROD rules requires the adviser to go through a full advice process every year. If these rules were changed to reduce the need for continual reviews, consumers could be more flexible, only seeking advice when they have a significant change in circumstance.

Furthermore, for those people whose situation does not change substantially year-on-year the advice rules should be adapted to allow advisers to adjust income without customer consent. As things stand this is possible on a pre-agreed basis but the amount of disclosure required upfront to get customer agreement and at the point of change makes it unviable.

- **Reduce regulatory compliance costs**

Given the overall cost of advice is prohibitive for many people, advisers need help to streamline processes, free up capacity and ultimately narrow the advice gap. Government should therefore conduct a wholesale review of the regulatory disclosure advisers need to give customers following advice or an annual review.

Each of the current disclosures are useful in isolation but they have accumulated with different objectives over many years. This means some customers receive 100s of pages of disclosure across different charges, investments, and other products. As many will have savings outside of pensions which need to be factored into their planning, the volume and diversity of disclosures is confusing and adds cost to the advice process. We would recommend all long term savings product disclosures are made consistent to make the process simpler, cheaper and reduce unnecessary printing.

We would also suggest government consults with the FCA on which specific rules create work for little consumer value, such as inconsistent and duplicate reporting and illustrations. Current rules for illustrating benefits require substantial information that is of little value to the customer and the volume of this risks hiding the key points that matter. Simpler annual statements are a well-intended initiative to improve this but they will ultimately just add another mandatory document without removing existing ones. It would be better if FCA reviewed all illustrations with an intent to get rid of the majority and replace with a simple framework with those that matter.

Financial guidance

Given current regulation, the focus of guidance should be on the need for consumers to understand what their needs and goals are through retirement rather than on the available products. As our recently published *Class of 2021* report demonstrates, 66% of those who will retire in 2021 may have insufficient savings to sustain their planned retirement income, while 37% worry about this fact, which highlights a fundamental lack of understanding of what retirement will cost.

5. **What role should the Money and Pensions Service have in supporting people accessing their pensions for the first time, including through pension dashboards?**

The role MaPS provides is valuable, especially for those consumers who have never had an adviser, and who don't think they need one. Access to a free government funded helpline can help them understand the decisions they have to make and the factors to consider when deciding what to do with their money.

The greatest value MaPS can provide is ensuring customers understand the questions they should ask. By explaining the key issues customers should think about they will make a more informed decision if they decide to self-select with a better understanding of the pitfalls.

Many consumers will however have complex situations and in these cases MaPS could do more to help them seek advice by pointing to the key areas they will need to address with an adviser. This could include helping people understand that the value of advice is more than a purely technical analysis fitting products to needs. Advice also ensures the individual does not make emotionally driven choices they may regret. An example of FCA research in this area is on self-selected investors which, while focussed on investors choosing to invest in higher risk options, covers how they can be led by trends and social media.

6. **Should the Money and Pensions Service offer enhanced guidance or limited advice for people making decisions about their pensions?**

   MaPS providing enhanced guidance or limited advice would not lead to good consumer outcomes. There would be substantial costs as any increased guidance is likely to become personalised and therefore would mean a significant increase in regulatory compliance costs, comparable to full advice. This would therefore increase government costs, and, as MaPS is partially funded by the adviser levy, advisers would effectively be funding a competitor, which could drive some out of business, and ultimately widening the advice gap.

   There may also be a perception MaPS should not promote advice as the costs are too high and there is not enough capacity in the industry. While capacity challenges do exist, these are better solved by reducing adviser costs, as covered above.

   We would therefore encourage MaPS to explain the value of advice for customers' changing circumstances, and help them recognise the questions they need to answer in order to build themselves a better retirement plan. An undue focus on products is likely to lead to a binary "annuity or drawdown" decision where the customer may be better suited by a mix of both, so MaPS' key role should be in raising people's basic level of knowledge to enable them to understand what advice they need.

7. **Can the success of auto-enrolment in helping people save into pensions be replicated for people in retirement through investment pathways?**

   We welcome the use of investment pathways as they recognise that no one size fits all for people in retirement. This measure was put in place to deal with one specific issue the FCA had identified at the point of retirement: consumers opting for cash despite it being an unsuitable long term investment. We have yet to see the outcome of this legislation but we support the implementation and believe it will lead to better outcomes.

   The success of auto enrolment (AE) was in recognising the one outcome that all would benefit from: saving more into a pension. This success is mainly due to the fact that saving more is a universally good outcome, so using behavioral bias towards inertia to opt people into saving was a relatively straightforward concept.

   If looking at replicating the benefits of AE in retirement we therefore need to identify what every individual would benefit from. As every customer's retirement circumstances are different the one thing they would all benefit from is <u>having a plan which takes into account all their needs</u>, including the likelihood they may live well into their 90s and that their income needs will vary throughout. We believe the best way to achieve this is through advice (see response to Q4 for our suggestions on how to make advice more accessible).

8. **Including costs, what information do consumers need about different retirement products to make an informed choice?**

   Clients need to understand the key features of how a product will impact their retirement objectives and their ability to have the income they want in retirement. This should include a summary of the key benefits and restrictions of the product, including:

- price
- the income options available and the tax impacts of them
- whether there are any guarantees or not
- investment risk and other risks involved for the client
- any death benefits/ options.

They need a personalised view of the impacts of withdrawals alongside investment risk and what these could mean for how long their retirement fund last. They also need a simple and clear explanation of the tax impact of their choices. This information is currently summarised in most suitability reports provided by advisers to clients who get retirement advice.

The problem for non-advised consumers, is that they do not have the summary provided by a suitability report and instead must rely on product provider and regulatory disclosure alone, which is extensive, often repetitive and hard to understand. For example, a customer reading a drawdown quote is presented with pages of comparison around how drawdown compares to an annuity (which most now do not want). Most do not need all this information or understand it when it is provided to them.

As well as addressing the volume of information provided to clients, it is vital to present it in a simple and compelling way, using graphics and customer based language rather than industry terminology. We need rules in place to make the presentation of information to clients more effective, but this will only be effective if at the same time the current disclosure rules are reviewed and reduced. Adding another disclosure point will only add to the problem of customer overload and confusion.

9. Are pension schemes communicating options effectively to members and are there material differences between trust-based and contract-based pension schemes?

Pension schemes often have very different approaches, something we see every day through our Retirement Advice Service. Most of our clients have pensions with different providers and their experience is different for each. Some make it easy for customers to access the information they need, laying it out effectively and in terms customers will understand.

However, this is not universal. Some trust-based and DB schemes in particular make it very hard for customers to understand what they have, their retirement options and how to get help. Some even lay the information out in a way that may influence the outcome (e.g. starting with a transfer value rather than a guaranteed income risks the client focussing too much on the option to transfer). Some schemes also make it very hard to get information and can take weeks to respond to client or adviser requests. The turnaround time to respond can vary from two days to three months across the different pension providers.

To make comparison easier, build trust and enable good retirement choices, there should be common standards for the provision of information to clients on their pension benefits and options, with common standards for how quickly clients can get access to this information.

10. Can the issues around small pension pots be solved through behavioural changes by savers?

No comments.

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