

## **Written evidence from the Financial Services Consumer Panel (APS0031)**

The Financial Services Consumer Panel is an independent statutory body, set up to represent the interests of consumers, and smaller businesses, in the development of policy for the regulation of financial services. We work to advise and challenge the FCA from the earliest stages of its policy development to ensure they take into account the consumer interest.

The Panel's vision for the market is as follows:

- Consumers who are considering accessing their pensions for the first time, receive high-quality, impartial guidance on the options available to them
- Consumers who are withdrawing lump sums make fully informed decisions, including understanding any tax implications and the risks of holding cash
- Consumers understand the options available to them, and are able to select an option based on their immediate and potential long-term needs
- Firms act in consumers' best interests when supplying advice
- The realisation of significant improvements in measurable outcomes including sustainable withdrawal rates and evidence that consumers are selecting products that are appropriate for their needs

### **Executive Summary**

The complexity of the pensions landscape is the reason for the lack of consumer engagement in this market. Consumers need a basic level of information to understand their retirement income. This information should include a set of appropriate scenarios, a retirement budget planner, and a tool that enables them to model their state, defined benefit and defined contribution pensions together. Although the Panel welcomes the Pensions Dashboard and the opportunities it brings, it may be some time before it actually comes to fruition. Further research is needed to understand whether individuals are making fully informed decisions when they first access their pensions and whether they are at risk of poor outcomes in the longer-term.

Realistically only a minority of those drawdown investors who would benefit most from financial advice, will access it. Those who don't are often left with difficult decisions to make due to the complexity of the products on offer and poor clarity of information provided, shown by many studies including the FCA's Retirement Outcomes Review (ROR). Consumers who do not seek financial advice need access to good quality, impartial guidance so that retirement options and risks are clearly explained to them. The short-term costs of providing guidance to all those accessing their pensions are likely to be very small in relation to the long-term costs borne by the wider economy when individuals experience poor outcomes in retirement.

The Panel would also encourage a 'menu' of adviser costs and fees to be presented to consumers in pounds and pence, so they understand exactly what they are paying for in a clear and comprehensible way and help them make informed decisions about their investment. This should boost engagement and comparability across the market.

The Panel supports the idea of enhanced guidance or limited advice with stringent testing in the first instance to better understand the risks and benefits to consumers. It is important to also recognise that broader family issues, such as inheritance tax and social care, come into play when deciding on retirement options, such that a holistic approach to support in this area would best serve consumers.

While there appears to be a wide range of retirement products available to consumers,<sup>[1]</sup> we are concerned about poor consumer outcomes, noting also the impact on wider society of weak financial resilience in later life. Innovation and competition seem to be stifled in certain parts of the market so this should also be reviewed to ensure the best consumer outcomes.

It will be important to closely follow the success of the FCA's revised wake-up packs following the ROR and, in due course, the investment pathways. The effectiveness of these changes will depend heavily on timing; consumers need sufficient time to get their investments into shape for their preferred retirement option and require regular checks in the final years to retirement. Such an approach could also help spread the cost of advice where used. Engagement is also likely to be enhanced if people understand that their decisions need not be a 'one-time' choice but can be adapted throughout retirement to fit their needs.

Yours truly

Wanda Goldwag

Chair, Financial Services Consumer Panel

<sup>[1]</sup>[https://www.abi.org.uk/globalassets/files/publications/public/lts/abi\\_bro3598\\_retirement\\_market\\_v7.pdf](https://www.abi.org.uk/globalassets/files/publications/public/lts/abi_bro3598_retirement_market_v7.pdf)  
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## Call for Evidence Questions

### **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?**

The pension freedoms were implemented during a period of stock market stability. Drawdown is now the preferred option for pots greater than £30,000 at retirement. Annuity demand is down<sup>1</sup> and people seem to prefer the access to tax free cash leaving the rest of the money in a drawdown product. Research suggests that some form of guaranteed income in retirement combined with flexibility remains a priority for savers and demand is likely to rise in the event of market volatility.

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<sup>1</sup> <https://www.theguardian.com/money/2019/sep/14/uk-pension-annuities-under-threat-as-rates-plummet>

While there appears to be a wide range of retirement products available to consumers,<sup>2</sup> we are concerned about poor consumer outcomes, noting also the impact on wider society of weak financial resilience in later life.

First, pensions are complex products and there is a very poor level of engagement by consumers, potentially perpetuated by inadequate communications throughout the pensions industry.<sup>3</sup> Fewer than half of those aged 18-64 claim to know enough about pensions to make decisions about retirement.<sup>4</sup> Individuals who do not wish to purchase regulated advice need access to high-quality impartial guidance, of the type potentially available from the Pensions Advisory Service and Pension Wise, to ensure that they are aware of their options and the associated risks.

Lack of understanding may cause consumers to take decisions that they believe increase their control over their retirement income while, in fact, lead to poor outcomes. Research conducted a few years after pension freedoms found that many consumers felt ISAs to be safer than pensions and better understood, giving them a sense of control, while pensions were deemed too complex, subject to bad publicity, and could fall in value.<sup>5</sup>

Consumers' misperceptions may cause them to avoid seeking suitable guidance or advice, lead them to eschew certain types of products (e.g. annuities), misunderstand how different products can work flexibly together, cause them to withdraw income at an unsustainable rate, and/or reduce their income through cash holdings or avoidable tax payments. Furthermore, research conducted for the FCA prior to the introduction of pension freedoms found that consumers do not give adequate consideration to the lifetime value of small differences in income, prefer to maximise income in the early years, and are reluctant to consider the impact of running out of money in later life.<sup>6</sup> There is no evidence to suggest these beliefs and behaviours have changed in the intervening years.

Suggestions by industry<sup>7</sup> that the root cause of poor consumer choices and outcomes lies with the behavioural biases of consumers are unhelpful because they infer that the consumer is largely responsible for navigating the pensions market and making sense of the various products and options available to them under a range of scenarios. Such views ignore the complexity of pensions and the obscure terminology. The Panel endorses approaches that enhance engagement with pensions. Research commissioned by NEST offers some useful suggestions for framing the language of pensions in ways that resonate with consumers and are likely to improve engagement and outcomes<sup>8</sup>. For example, individuals misinterpret 'default' as 'recommendation', and the phrase 'retirement income' has more salience than 'pot value'. Overall, the NEST report contains some useful points about how annual pension statements and general communications could be amended in ways that change behaviours.

The second reason for poor consumer outcomes is that competition and innovation are not evident in all sectors of the market. For example, the annuity market is highly concentrated, with the top five providers accounting for 80% of all purchases. This has consequences for the pricing and quality of products. Consumer confidence in the annuity market is further undermined by the lack of transparency over the payment of commissions to brokers.<sup>9</sup> We would encourage policy makers and regulators to consider

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<sup>2</sup>[https://www.abi.org.uk/globalassets/files/publications/public/Its/abi\\_bro3598\\_retirement\\_market\\_v7.pdf#m4](https://www.abi.org.uk/globalassets/files/publications/public/Its/abi_bro3598_retirement_market_v7.pdf#m4)

<sup>3</sup> <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf>, pg152

<sup>4</sup> <https://moneyandpensionservice.org.uk/wp-content/uploads/2020/01/UK-Strategy-for-Financial-Wellbeing-2020-2030-Money-and-Pensions-Service.pdf>

<sup>5</sup>[https://www.abi.org.uk/globalassets/files/publications/public/Its/abi\\_bro3598\\_retirement\\_market\\_v7.pdf#m4](https://www.abi.org.uk/globalassets/files/publications/public/Its/abi_bro3598_retirement_market_v7.pdf#m4)

<sup>6</sup> <https://www.fca.org.uk/publication/research/rims-ignition-house.pdf>

<sup>7</sup>[https://www.abi.org.uk/globalassets/files/publications/public/Its/abi\\_bro3598\\_retirement\\_market\\_v7.pdf#m4](https://www.abi.org.uk/globalassets/files/publications/public/Its/abi_bro3598_retirement_market_v7.pdf#m4)

<sup>8</sup> <https://www.nestinsight.org.uk/wp-content/uploads/2020/11/Beyond-the-defaults.pdf>

how to stimulate competition and ensure that firms act in consumers' best interests so that consumers' needs are met throughout their retirement through the full range of available products.

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

Exploring the pension eco-systems of other countries, notably those countries whose schemes exhibit the highest levels of adequacy, sustainability, and integrity, may indicate some approaches or options that are currently unavailable in the UK. Research conducted in 2019 suggests there may be lessons to be learned from The Netherlands, Australia, and Denmark<sup>10</sup>. Of particular interest is the interaction between enhanced communications to members, the availability of a range of products and the way they are presented to members, the provision of high-quality guidance or advice at critical points and regular intervals, and regulatory defaults that offer consumers the best possible outcomes for their individual circumstances. More research is required to understand the barriers to delivering a 'joined up' approach in the UK – and the risks to the wider economy of not doing so.

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

No comment.

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

The FCA's Retirement Outcomes Review (ROR)<sup>11</sup> suggests not. It offers substantial evidence of the difficulties facing consumers having to make decisions without a full understanding of the implications, which may include the tax and welfare consequences of accessing their pension pots. Research for the report found that risk warnings have proved inadequate and are often seen by consumers as being designed primarily as "back covering" for providers. The report also found that consumers "motivated by mistrust in pensions may be making uninformed decisions." The lack of trust, combined with complex and confusing options, means that many consumers take their pension pot as cash and put it in the bank. They say they do this to feel they are in control of their money. Others take the path of least resistance and buy whatever their provider is offering. The Institute for Fiscal Studies (IFS)<sup>12</sup> has found that people in their 50s are underestimating their chances of surviving to the age of 75 + which may have an impact on decision-making also.

Recent statistics support the Panel's concerns that consumers are not receiving adequate advice or guidance:

- Half of those aged 55-64 say they don't know enough to plan for retirement<sup>13</sup> and almost half (45 per cent) of people state that they do not give their pension 'much thought' until they are two years from retirement.

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<sup>9</sup> <https://www.thetimes.co.uk/article/annuity-secrecy-the-cost-of-pension-kickbacks-thz52lvbm>

<sup>10</sup> <https://www.monash.edu/business/news/2019/global-pension-index-uncovers-strong-correlation-between-household-debt-and-pension-assets>

<sup>11</sup> <https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review>

<sup>12</sup> <https://www.ifs.org.uk/publications/12923>

<sup>13</sup> <https://moneyandpensionservice.org.uk/wp-content/uploads/2020/01/UK-Strategy-for-Financial-Wellbeing-2020-2030-Money-and-Pensions-Service.pdf>

- As at September 2020, the effects of the pandemic on employment had forced three per cent of those aged 66-70 and 6% of those aged 71 and older into retirement.<sup>14</sup> Meanwhile, nearly a fifth of workers aged between 65 and 74 have decided to delay their retirement due to the negative effects of the pandemic on their financial circumstances<sup>15</sup>. These differing patterns among those of retirement age raises concerns about financial resilience during retirement and the need for guidance or advice before retiring.
- Nearly half of regular withdrawals are taken at an annual rate of 8% or more of the pot value.<sup>16</sup>
- Half of all pots are accessed for the first time without advice or guidance, and a greater proportion of pots are entering drawdown without advice or guidance (27%, up from 25%).<sup>17</sup>
- Two thirds of pension plans accessed for the first time are not based on regulated advice.<sup>18</sup>
- Nearly three quarters of annuity purchases are made without regulated advice.

Further research is needed to understand whether individuals are making fully informed decisions and whether they are at risk of poor outcomes in the longer-term. The Panel's own research found that consumers who were considering accessing their pensions did extensive research online before making a decision to access their pension, but the number of unregulated brokers operating in the online space in this sector was particularly worrying.<sup>19</sup> It was unclear which firms they acted as introducers for; whether those firms were FCA regulated, and how brokers are paid or how much they are paid.

Concerns about the cost of ensuring that guidance is provided to all those accessing their pensions should be viewed in the light of poor outcomes currently experienced by individuals, whether from inappropriate withdrawal rates, tax penalties, fraud, or poor investment choices, and the long-term consequences for society. The short-term costs of providing guidance to all those accessing their pensions are likely to be very small in relation to the long-term costs borne by the wider economy when individuals experience poor outcomes in retirement. These wider economic costs include reduced expenditure, increased costs of social care, and redress or compensation arising from poor advice or fraud for any financial services products purchased by retirees. Other, indirect, benefits are also likely to arise from the provision of impartial guidance to those accessing their pensions. For example, guidance when accessing pensions is a form of just-in-time financial education that may encourage retirees to seek guidance or advice when purchasing other financial services products, and to recommend guidance or advice to friends or family members.

It will be important to closely follow the success of the FCA's revised wake-up packs following the Retirement Outcomes review, and in due course the investment pathways. The effectiveness of these changes will depend heavily on timing; consumers need sufficient time to get their investments into shape for their preferred retirement option and require regular checks in the final years to retirement. Such an approach could also help spread the cost of advice where used. Engagement is also likely to be enhanced if people understand that their decisions need not be a 'one-time' choice but can be adapted throughout retirement to fit their needs.

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<sup>14</sup> <https://ifs.org.uk/uploads/BN305-The-coronavirus-pandemic-and-older-workers.pdf>

<sup>15</sup> <https://www.yourmoney.com/retirement/covid-causes-one-in-five-to-delay-retirement/>

<sup>16</sup> <https://www.fca.org.uk/data/retirement-income-market-data>

<sup>17</sup> <https://www.ftadviser.com/pensions/2020/09/29/advised-drawdown-falls-to-lowest-rate/>

<sup>18</sup> <https://www.fca.org.uk/data/retirement-income-market-data>

<sup>19</sup> [https://www.fs-cp.org.uk/sites/default/files/fscp\\_final\\_digital\\_advertising\\_discussion\\_paper\\_20200630.pdf](https://www.fs-cp.org.uk/sites/default/files/fscp_final_digital_advertising_discussion_paper_20200630.pdf)

While automated services have a role to play in widening access to advice and guidance, there are clear risks to consumers if these services are not transparent and clearly communicated.

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

As noted above, it is critical that the government delivers on its promise of guaranteed guidance on pensions choices by ensuring that all those accessing their pensions are directed to an independent body, such as MaPS. Recent consumer polling published by the ABI found that 72% of respondents would not pay for any form of advice either digitally or face to face. Separate research found that, of those adults who are more likely to need retirement planning support (because they have a DC pension pot of at least £10,000 and plan to access a DC pension in the next 2 years or plan to retire in the next 2 years), almost half have not received support related to retirement planning in the last 12 months.<sup>20</sup>

The Pensions Dashboard is intended to encourage people to take an interest in their pensions saving and MaPS should play a key role in boosting its awareness, working with stakeholders wherever possible. Consumers will be able to see at a glance whether they are saving enough for the retirement they want. It will be particularly valuable in light of auto-enrolment as many people will build up 10 or more pension pots as they move jobs. These pots won't be lost or forgotten as many are now. What will be important is the signposting to other organisations, such as Pension Wise, from the Pensions Dashboard as it is likely consumers will have further questions having viewed their pension/s 'at a glance.'

Efforts to 'nudge' consumers into taking guidance, as reported in the Behavioural Insight Team's research commissioned by MaPS, had little effect on the very low level of take up across the entire cohort of potential consumers, and the Panel believes that that the approach tested lacked ambition.<sup>21</sup> The FCA's data showed that those who use regulated advice are more likely to enter drawdown, while those who use Pension Wise, or neither, are more likely to purchase an annuity or make a full withdrawal. While robust evidence on the outcomes resulting from these different routes is not readily available, the FCA's data indicates some element of self-selection by consumers in their use of guidance or advice or neither, warranting further consideration before consumers with more complex situations and/or larger pots are nudged towards Pension Wise.

The Panel is supportive of MaPS' strategy for building consumers' understanding and awareness as they enter retirement: developing guidance packages; helping the sector to design products, services, regulations, and technology that meet consumers' needs; and running joint campaigns that build trust, confidence, and engagement.<sup>22</sup>

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<sup>20</sup> <https://www.fca.org.uk/publication/research/ignition-house-consumer-research-report.pdf>

<sup>21</sup> <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf>

<sup>22</sup> <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/01/UK-Strategy-for-Financial-Wellbeing-2020-2030-Money-and-Pensions-Service.pdf>

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

The Panel is supportive of proposals that will promote greater take-up of MaPS' services by people making decisions about their pensions. However, in order to ensure a joined-up approach across the sector, these services should act primarily as signposting for further guidance or advice rather than competing with market offerings.

More generally, there is scope to equalise the guidance that individuals receive about their pensions. For example, individuals wishing to transfer more than £30,000 from a defined benefit scheme are required to receive advice whereas no equivalent requirement is in place for those in defined contribution schemes. As noted above, the 'nudge' to guidance, as currently implemented, is at best a weak prompt that will do little to bring about the wholesale changes in consumer behaviours that are required to ensure that the pensions industry delivers good outcomes for all consumers. We support calls for MaPS to explore the use of an accreditation framework for guidance by providers and others, especially during retirement.

The Panel would support formal rigorous testing of enhanced guidance or limited advice to better understand:

- how consumers respond in the short- and long-term to enhanced guidance / limited advice
- whether consumers receiving enhanced guidance / limited advice attain better outcomes and reduced harm to those who do not
- the opportunities and barriers to extending enhanced guidance / limited advice to other bodies
- an assessment of the wider economic benefits that might accrue from enhanced guidance / limited advice (e.g. reduced fraud, debit write-offs, benefits claims etc, and increased financial resilience, economic growth etc)

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

There is a disconnect between people's experiences with auto enrolment, which requires limited engagement, and the complex choices they are then required to take from age 55. Better information and guidance, through the Pensions Dashboard and Pension Wise, will help but, due to inertia and poor understanding, guidance provided as a default is likely to lead to better outcomes for individuals and society.

An impartial comparison tool to enable consumers to compare the real costs and returns of different retirement options would be helpful but, as with other financial services markets, not everyone wants to spend their time analysing their options and shopping around. Investment pathways together with more sophisticated online guidance may be the answer. The FCA should monitor the effectiveness of the investment pathways closely and needs to be very clear on what good outcomes for consumers look like. This is particularly critical in light of widespread concerns that the approach taken, based on consumer inertia, has introduced new risks for consumers, as well as leading to increased risk as a result of the impact of the pandemic. In order to improve the outcomes from investment pathways, the Panel would be interested to understand whether better outcomes could be achieved through default product packages, with affordable and sustainable fees, that combine different products in different proportions at different life stages post-retirement.

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

Realistically only a minority of those drawdown investors who would benefit most from financial advice, will access it. Those who don't are often left with difficult decisions to make due to the complexity of the products on offer and poor clarity of information provided. Research carried out by Which? and others highlight the range of different charges imposed by providers on consumers in drawdown, the difficulties consumers face in comparing costs across providers, and the large discrepancy in total fees levied, potentially wiping more than 10% from a retirement pot over 25 years.<sup>23</sup>

The ROR is just one of several FCA studies - those focusing on the Asset Management and Investment Platforms markets are among the others - to have highlighted ongoing inconsistencies in the information given by firms to consumers and the often-poor quality of communication, despite FCA efforts to improve this area.

The Panel welcomes the recent requirement that pension providers must give customers in decumulation annual information on the costs and charges they have paid on their pension pot, and we look forward to seeing evidence of its use by consumers to inform their decision making in ways that lead to improved outcomes. We also welcome the Committee's support in encouraging the FCA to revisit the idea of a potential 'menu' of adviser costs and fees.<sup>24</sup> A menu of charges would enable consumers to understand exactly what they are paying for in a clear and comprehensible way, jargon-free, to help them make informed decisions about their retirement pot.

The Panel believes that consumer communication for financial services has not kept pace with technological progress, and consumers have limited time to devote to important decisions. Regulation should promote efficient and effective disclosure. We are concerned that too many firms still write communications for the regulator as opposed to what is most helpful for consumers. Clear, simple and easy-to-understand language, as indicated in the NEST research referred to in our response to Q1, is needed to help consumers make informed choices. [NEST](#) has suggested small changes to the language used when discussing DC pensions pension contributions can boost engagement of scheme members. Building on the auto-enrolment initiative this research suggested language that is 'plain-spoken, positive, personal and plausible' boosts engagement levels.

Consumers need a basic level of information in order to understand the likely shape of their retirement income. Such information should include a set of appropriate scenarios, a retirement budget planner, and a tool that enables them to model their state, defined benefit and defined contribution pensions together. This information should be provided in a way that is easy to understand and use, that encourages consumers to take action where appropriate, and that supports consumers in their decisions about the various options available to them. It is particularly important that support for later life consumers takes a holistic approach to their savings and needs, and that broader family issues, such as inheritance tax and social care, are also addressed.<sup>25</sup> Engagement is also

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<sup>23</sup> <https://www.which.co.uk/money/pensions-and-retirement/options-for-cashing-in-your-pensions/income-drawdown/compare-pension-drawdown-plans-and-charges-ax1628r13rdk>;  
<https://www.retirementace.co.uk/2020/07/fees-can-cut-your-pension-drawdown.html>;  
<https://www.telegraph.co.uk/money/consumer-affairs/beware-pension-pitfall-could-double-fees-halve-returns/>

<sup>24</sup> [https://www.fs-cp.org.uk/sites/default/files/final\\_fscp\\_response\\_retirement\\_outcomes\\_review\\_cp\\_19\\_05\\_investment\\_pathways\\_20190430.pdf](https://www.fs-cp.org.uk/sites/default/files/final_fscp_response_retirement_outcomes_review_cp_19_05_investment_pathways_20190430.pdf)

<sup>25</sup> [Finkelstein, A and Poterba, J, (2004), "Adverse selection in insurance markets: policy holder evidence from the UK annuity market", Journal of Political Economy, Vol 112, pp193-208]

likely to be enhanced if people understand that their decisions need not be a 'one-off' but can be adapted throughout retirement to fit their needs.

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

The Panel believes that the current experiences and choices of members (see data included in our response to Q4) indicates poor quality communications by schemes. High withdrawal rates, the high proportion of pots accessed or entering drawdown for the first time without advice or guidance, the low take up of Pension Wise, and other indicators all point to a failing in the current market in this respect.

The Panel does not have any data that points to material differences in communications between trust-based and contract-based pension schemes – but believes that this is not a sufficiently broad comparison. We would welcome research that compares the effectiveness of communications of occupational (DB and DC, both trust- and contract-based) to private pensions.

The effectiveness of communications should be tested using independent, standardised, and rigorous methods of research, and focused on consumer behaviours and outcomes. Analysis based on self-reported responses by pension schemes to this consultation is unlikely to provide convincing results.

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

Behavioural responses are not an adequate or appropriate response to the problem of small pots. The causes of small pots are not generally behavioural – they are labour-market driven, and a consequence of the (highly desirable) link of pension to employer. The small pots project has created a pathway to test various options and evaluate which interventions are most likely to drive engagement and change behaviour at retirement. Dashboards could help, but their effectiveness is dependent on the responses of members to different interventions.

Industry, the regulators and Government will need to work together in this area to achieve good outcomes for consumers. The Panel, as a member of the Small Pots Working Group, urges the Committee to review the recommendations in its [report](#) to the Minister for Pensions and Financial Inclusion. The Working Group found administrative barriers to consolidating deferred small pots in the auto-enrolment market which will take time to address. It also recommended a long-term savings default consolidator model to address consumer inertia and result in better overall outcomes for consumers.

**May 2021**