

Written evidence from Fidelity Worldwide Investment (PFA0027)

1. Executive summary

- 1.1 Fidelity has first-hand experience of helping its customers access their pension savings through pension freedom. In particular Fidelity's Retirement Service offers guidance and advice to all its pension savings customers be they members of the company pension plans we manage or direct individual customers. The overarching aim of this service was to help our customers make retirement decisions that were right for them and to give them confidence in those decisions. Our guiding principle is that, under the freedoms, there will be a "right place" for everybody and that we should do all we can to help our customers get to the right place even if that does not create revenue for our firm.
- 1.2 We have seen significant levels of customer activity within our company pension plan membership with an inevitable focus on taking cash although less than 4% of those eligible have done this. Our service involves all customers having a conversation with a retirement specialist which we classify as guidance. Advice is offered but, in our experience, is rarely taken up unless a customer is seeking a holistic retirement plan or is required to take advice by statute.
- 1.3 We suspect that part of the reason for low take-up of advice is cost but consumer attitudes are also a major factor. Few customers are thinking about retirement holistically and have often decided on a course of action before contacting us, particularly if taking cash.
- 1.4 We remain committed to further develop our service to make guidance and advice more accessible to all of our customers. There are a number of areas that need addressing to support this. The necessary actions fall into five main areas:
 - Regulatory change to better support guidance and simplified advice
 - Industry development of more focused advice offerings
 - Changing consumer attitudes to the need for and value of expert help and advice
 - Stability and simplification of the rules around pensions to help instil greater trust in the system
 - Reducing barriers to transferring existing pension schemes

2. About Fidelity

- 2.1 Fidelity is a global investment and retirement provider serving investors outside North America. It was established in 1969 and manages all significant asset classes for institutional and retail investors in long-term savings' products. Fidelity employs over 7,000 people in 25 countries, managing US\$370 billion of assets worldwide and servicing over 7 million customer accounts. Fidelity has experience in almost every major retirement market globally, and is a market leader in many of these established markets.
- 2.2 In the UK, Fidelity distributes life, pensions and fund products through its platform business, as well as being a pre-eminent manager of an extensive range of its own UK mutual funds. The business has a significant retirement presence, being a provider of defined contribution pension schemes, individual pension products, and a leading retirement adviser. The business services over 1.2 million individual investors, manages relationships with over 12,000 financial advisers and administers over 400 employer schemes.

2.3 As a business, Fidelity has been at the forefront of delivering innovative client solutions and has a deep rooted understanding of the retirement markets, both in the UK and globally. As an organisation, Fidelity is private which means it is driven to ensure the long term interests of its customers are serviced effectively – rather than looking at short term performance.

3. Fidelity's Retirement Service

3.1 Following the announcement of pension freedom in March 2014, Fidelity was one of the first businesses to launch a service to support the new rules. This service provides full choice of retirement solution, allowing clients to take cash, draw income or to access a fully open market annuity platform. The overarching aim of this service was to help our customers make retirement decisions that were right for them and to give them confidence in those decisions. Our guiding principle is that, under the freedoms, there will be a “right place” for everybody and that we should do all we can to help our customers get to the right place even if that does not create revenue for our firm.

3.2 There are three components to the service:

- Educational content and tools – online and offline information on retirement matters, simple tools and retirement seminars for both those in the workplace and our direct customers.
- Guidance and advice – a dedicated team of retirement specialists who are able to support customers in deciding and executing their retirement choices.
- Competitive products – whole of market annuities, the Fidelity SIPP for drawdown with access to Fidelity's market leading fund platform and investment solutions, flexible DC offering that provides full freedoms with the exception of regular income payment.

3.3 Some key points are worth drawing out:

- Those that are engaged with retirement planning place a high value on educational content and will often research their plans over many months before committing to a course of action
- Conversely, many customers, particularly those with smaller pots, will come to us with a course of action already in mind and will not have engaged with much, if any, of the content including the wake-up materials they have been sent
- We provide a series of simple tools on our website that help our customers answer some basic questions around what they need, what they have and what options are relevant for them. Experience from Fidelity Investments in the US, which has a dominant role in its retirement market, has concluded that few customers are prepared to complete their entire retirement planning journey online preferring to have some direct human contact either by phone or face to face.
- We require all customers wanting to conduct any retirement transaction to speak with one of our retirement specialists. Again, we believe the complexity of these interactions is best handled through a conversation rather than through an online journey.
- Although we operate a restricted advice model, it is important to recognise that we do still offer a wide choice for customers including whole of market annuities, over 2,500 funds and a range of Fidelity managed solutions that invest in 3rd party funds. We consider that, from this, we are able to satisfy the majority of our customers' requirements.
- We maintain a separate investment committee for the retirement advice business that monitors the products we recommend to customers to ensure they continue to deliver against customer needs.

4. Our guidance and advice offer in more detail

- 4.1 For our individuals who are invested in a company pension scheme with Fidelity, initial contact is typically with a representative who can answer basic questions and help customers realise cash from their pension savings or buy an annuity, without offering regulated financial advice. Customers with more complex needs or who specifically request advice are transferred to our specialist retirement advice team who can provide more detailed guidance or full regulated advice. Our services are also available to customers who do not have a company pension with Fidelity. These customers can directly access our advice team where again they can access guidance or full retirement advice.
- 4.2 Our guidance conversations are focused on helping customers understand the consequences of their choices and so helping them determine whether those choices are right for them. This includes delivering the additional protections prescribed by FCA but will go beyond that. For example:
- Members taking cash from trust-based pension plans will be made aware of what impact that will have on their accrual of future benefits. For example, some plans will require that a member has to cease membership if they access benefits.
 - Those seeking to purchase an annuity will be supported in understanding the features of these products and the choices they need to make
 - Customers going into drawdown will be taken through a detailed discussion of the investment and withdrawal risks and an explanation of what's involved in maintaining this product on an ongoing basis
 - Those looking to consolidate their pensions with Fidelity can discuss the pros and cons of doing that.
- 4.3 Our core advice service provides customers with a holistic retirement plan that considers all of their sources of retirement income and ongoing needs. This will include State and defined benefit pensions. As well as giving a personal recommendation, we then implement the chosen solution on behalf of the customer.
- 4.4 We provide customers with additional guidance and advice on more complex retirement issues such as lifetime allowance advice and defined benefit transfer advice.
- 4.5 We also operate a “safety-net” approach where we will consider a customer’s requested actions in the context of what we know about them. Where we see customers taking actions that seem inconsistent with their circumstances we will contact them to highlight this and check that they are aware of the consequences. Examples include married men buying single life annuities, people seeking to transfer pensions to us when surrender penalties are significant and people buying annuities with very small purchase prices that may be more effectively taken as a small pot withdrawal.
- 4.6 We generally do not charge a fee for our guidance services though customers buying an annuity are charged a commission which is fully agreed before transacting and which is limited to £1,000. We charge a flat fee for holistic retirement advice of £2,500 and the same fee for defined benefit transfer advice.

5. Experience to date

- 5.1 As other providers, we have seen significant levels of activity from those holding company pensions with Fidelity, particularly from customers who have yet to reach their selected retirement age wanting to access cash from their pensions. It is important to recognise though

that this activity represents less than 4% of customers who are eligible to access their retirement savings.

- 5.2 Generally these customers come to us already having decided they want to access their funds. Initially, many customers were resistant to any form of conversation about the merits or otherwise of doing this. We are seeing that customers are becoming more thoughtful about the implications of taking cash evidenced by more in depth conversations about options, often over multiple telephone interactions, before they transact. Few of these customers are asking for holistic retirement advice with most just focused on the pension savings they hold with us. This is further reflected by the relatively low use of Pension Wise by customers with less than 20% overall having used the service although those with higher value pots do seem more likely to have taken up the guidance.
- 5.3 We operate a number of defined contribution schemes that have safeguarded benefits typically in the form of Guaranteed Minimum Pensions or similar. Where these benefits are worth more than £30,000, there is a requirement to seek advice when accessing benefits. Like other providers though, we insist that anybody transferring in to our SIPP product from a plan with safeguarded benefits have to have received a positive recommendation to transfer from a qualified adviser, regardless of the value of those benefits. This is because we feel the risk of taking non-advised transfers of such benefits is too great. While we provide this advice at a nominal fee of £500, many customers see this as unfair and unnecessary and it is a source of complaint. This advice does however often identify a shortfall against the value of the guaranteed benefit and so may generally be considered beneficial.
- 5.4 Those customers who are investing directly through a SIPP are generally moving into drawdown arrangements within the existing product and, again, take-up of full retirement advice is very limited. We expect that while part of this is driven by cost it is more driven by two factors:
- Certainty of intent – customers are often clear about what they want to do and how they want to do it. This is particularly true for a large number of our direct customers who tend to be very engaged and self-directed.
 - Simplicity of need – many customers going into drawdown are simply doing so to make a one-off cash withdrawal rather than set up a regular income. As such, they tend to view it as a simple transaction and consider full advice to be disproportionate to what they are trying to do. This again shows a resistance to wanting to take advice
- 5.5 Where customers do tend to seek advice from us is where they have particularly complex pension arrangements such as multiple pension pots, lifetime allowance issues or defined benefit pensions.

6. Areas for improvement

- 6.1 We remain committed to helping our customers find the right course of action for them at retirement. We believe that more can be done to facilitate and support this. The necessary actions fall into five main areas:
- Regulatory change to better support guidance and simplified advice
 - Industry development of more focused advice offerings
 - Changing consumer attitudes to the need for and value of expert help and advice
 - Stability and simplification of the rules around pensions to help instil greater trust in the system
 - Reducing barriers to transferring existing pension schemes

6.2 Regulatory change

- 6.2.1 We are delighted that HM Treasury has commissioned the Financial Advice Market Review and intend to participate fully in this inquiry. We are still considering the specific changes that would be helpful in improving access to advice but expect these to include:
- A much clearer delineation between advice and guidance. In legal terms this exists but it is clouded by regulatory interpretation
 - Safe harbours for certain types of guidance. An example might be the treatment of defined benefit transfers below £30,000. While there is no legal requirement to take advice many, including Fidelity, believe the risk of accepting this business without advice is too high.

6.3 Industry development

- 6.3.1 The industry is already working hard on delivery of simplified advice models. These are to be welcomed but there is an inescapable reality that retirement planning is complex and not just for the wealthy. We expect that the successful advice models will consist of a mix of approaches determined by the customer's particular circumstances. This points to a more menu-driven approach to advice and the use of technology and information sharing to make the advice process more efficient and effective

6.4 Changing consumer attitudes

- It seems that there is some significant cultural resistance to the idea of seeking expert help at retirement. The political language is that of freedom and many of our customers have been explicit that they see safeguards - such as the FCA additional protections - as just getting in the way of them exercising their freedom.
- 6.4.2 There is no doubt that providing a more compelling, more affordable guidance and advice proposition will drive take-up but it is not clear that this will result in even a majority of customers getting the help that they need.
- 6.4.3 We'd ask government and regulators to consider whether some of the language and positioning used around pension freedom is supportive of customers seeking expert help. A tendency to overemphasise the positive and to blame the industry for shortcomings does not present customers with a balanced view of the complexity of retirement nor give them confidence that pension providers and others can help them.

6.5 Stability and simplification of the rules

- 6.5.1 It seems there is always significant change in pensions but the past few years have seen this reach new highs. While the changes have generally been for the better, constant tinkering with the system undermines consumer confidence and trust in pensions. While we accept that change will always be a feature of the system, we need to consider whether this might be achieved in a more effective way. In particular, achieving some stability for the system in an ever-changing political landscape would be welcome.

6.6 Reducing barriers to transfer

- 6.6.1 The ability to bring together different pension pots into one account in the run up to retirement is a key requirement for successful retirement planning. It facilitates a more holistic approach to planning and can also mean that customers get a better deal. The presence of safeguarded benefits and exit penalties are unavoidable obstacles to transfer and can only be dealt with through improved access to affordable guidance and advice.

Beyond this though, transfers are frustrated by the lack of a consistent approach across the pensions industry. The insurance providers have had some success with the Origo Options system but there are large swathes of the industry that are not included in this, particularly non-insured trust-based plans. There are industry initiatives underway but more effort needs to be put into delivering a solution.

7. Conclusion

- 7.1 Pension freedom is clearly very popular with consumers and our experience is that, on the whole, people seem to be making sensible choices. We are, however, concerned that these choices are being made without customers always having a holistic plan around retirement income. We believe there is much that the industry, regulators and government can do to improve the availability of good quality expert help yet it all be for nought if current consumer attitudes to seeking expert help are not addressed.

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