Consultation Response

Financial Conduct Authority: advising on pension transfers

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About this consultation

The Financial Conduct Authority (FCA) has proposed a new advice regime for transfers out of Defined Benefit pension schemes, called the 'Appropriate Pension Transfer Analysis' (APTA). This would replace the existing regime that is focussed on the 'Transfer Value Analysis' and predicated on the assumption that such transfers are unsuitable for the individual, which the FCA believes is no longer working well in practice.

Key points and recommendations

- The high number of transfers out of Defined Benefit pensions is a matter of significant concern for several reasons, not least as it can leave individuals unnecessarily exposed to significant longevity and inflation risks.
- There is also a significant risk to survivor benefits. When survivor benefits are given up it is likely that many women will lose out, adding to gender inequality in retirement incomes.
- There are considerable risks to consumers in this marketplace – DB schemes have a commercial interest in relieving themselves of long-term liabilities; while behavioural biases mean scheme members may prioritise a cash windfall over long-term financial security. This creates an incentive for providers to 'nudge' people towards transferring out.
- Age UK broadly supports the proposals for the new APTA regime. We are pleased that the focus is on undertaking a holistic assessment of an individual's financial and personal needs.
- We support the idea of including a comparison tool, which should be behaviourally tested to ensure it helps individuals reach an appropriate decision.
- This consultation is also an opportunity to look beyond the advice regime, which is only required for savers with over £30,000 in benefits, and consider what can be done to encourage appropriate decision-making by people with smaller amounts.
- For example, we believe that everyone who transfers out without advice should be defaulted into Pension Wise to help improve understanding of the pension freedoms.
- There should be greater emphasis on 'what happens next' across the board, as there are significant risks associated with decision-making under freedom and choice – the FCA should specifically consider DB transfers and safeguarded benefits as part of its Retirement Outcomes Review.
- Everyone transferring out is potentially risking the lion's share of their retirement income, and this issue should be taken seriously by the FCA, the Government, the pensions industry, and by advisers.

1. Introduction

The FCA's Retirement Outcomes Review confirmed that there is a high level of disengagement in pensions that is leading to potentially poor decision making among Defined Contribution (DC) savers. This makes the increasing numbers of people transferring their Defined Benefit (DB) pensions into a DC scheme a matter of significant concern. Many people who transfer out of their DB scheme may be leaving themselves financially worse off in the long-term, as well as exposing themselves to unnecessary inflation and longevity risks.

There is a significant behavioural bias towards cashing in, especially in periods when there are high transfer values, as people prioritise the present over the future. It is important that this is factored in to the regulatory guidance by ensuring warnings are issued and advisers are required to consider longer-term outcomes. There are considerable risks to consumers in this marketplace as it is in providers' commercial interests to get DB liabilities off their books. The FCA should also be looking to regulate the communications that firms send out to clients where they are encouraging (tacitly or overtly) people to transfer (para 4.6), and be prepared to take strong action against firms that overstep the mark – a mark that is clearly defined in the regulation.

We are pleased the proposed new regime will place greater emphasis on individual suitability and move away from allowing advisers to focus solely on the transfer value analysis. However, the underlying message contained in the current starting assumption that transfers are 'unsuitable' is still important and sends a clear signal. Relating it to an individual's personal circumstances may be more effective, but we hope this deterrent is not lost altogether.

Individuals with DB pensions of under £30,000 are still eligible to cash out without taking advice. For many people in this bracket this may be all the retirement savings they have, and cashing it in may not be in their best interests (especially when considering the transfer of longer-term risk to the individual). There is also a significant risk to surviving partners, who may be unaware that this valuable protection has been lost. Age UK is currently preparing a report on women and private pensions, focussing on the freedom and choice agenda but relevant for DB transfers too, which will consider the difficulties that many women have in achieving a decent income throughout their later life.

While this consultation focusses on the advice regime, the FCA should also use this opportunity to consider what behavioural 'nudges' could be applied to people with a DB pension value of less than the £30,000 advice threshold in order to dissuade them from cashing out without full consideration of the risks – particularly where their DB pension is their main source of private retirement income.

We are also concerned with the numbers of people giving up safeguarded benefits. The latest FCA figures show that between October 2016 and March 2017, 58 per cent of people did not take up Guaranteed Annuity Rates. It is particularly alarming that even among those with over £100,000 in their DC pot, for whom the GAR is particularly valuable, one third did not take it up.[i] This demonstrates the high propensity to take cash, even when 'good' benefits are at stake.

Since people making transfers will subsequently be using the freedom and choice decumulation options, there should be a role for Pension Wise too. All ‘transferees’ should be defaulted to Pension Wise, with an opt-out, and for those with under £30,000 of benefits (who are not required to take advice) the FCA should consider whether mandation is appropriate.

2. Consultation questions

Q1: Do you agree with our proposal to require all advice on the conversion or transfer of safeguarded benefits to be a personal recommendation? Please provide the reasons for your response.

Yes. It is important that all advice takes account of an individual’s personal and financial circumstances, to ensure that any transfer delivers ongoing value. The advice process should also include charges and other relevant factors relating to the receiving scheme.

Q2: Do you agree with our proposals for new guidance on assessing suitability? If not, what guidance do you think would be helpful?

We agree with the proposals. It is very important that an in-depth view of an individual’s personal and financial picture is collected and analysed by the adviser before making a recommendation. The FCA needs to ensure that advisers do not use it as a tick box exercise, and that the analysis carries real weight in decision-making. If the changes proceed, then the FCA should seek evidence of what impact they are having in practice.

There is also cross-over with the pensions dashboard project – if advisers are to have a holistic view of an individuals’ retirement savings, then the dashboard should be a useful tool. However in order to make this work the dashboard should also include DB savings, and it is unclear at present whether this will be the case.

Q7: Do you agree with our proposals on the introduction of an appropriate pension transfer analysis? If not, how could we amend it?

Age UK is pleased that the proposed ‘Appropriate Pension Transfer Analysis’ (APTA) considers an individual’s circumstances in detail.

We ask the FCA to consider carefully the overlap with advice and guidance regime for people with Defined Contribution pots. Once the transfer has been made, it will be important that people understand the issues around decision-making on decumulation, and are in a position to take sensible decisions. Defaulting people into Pension Wise might be a viable option.

Those with under £30,000 who do not take advice on their transfer should be as a minimum defaulted to Pension Wise, with an opt-out, and the FCA should also consider whether mandatory referral is appropriate.

Q8: Do you agree with our proposals on preparing and presenting the client with a mandatory transfer value comparator within the appropriate pension analysis? If not, how could we amend it?

Yes, we agree a comparison tool is important. The tool should be behaviourally tested to ensure it is easy to understand and encourages people to take an appropriate decision.

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[i] FCA Underlying data bulletin, issue 10, September 2017