The Financial Inclusion Centre

Financial markets that work for society

WORK AND PENSIONS COMMITTEE – PENSIONS FREEDOM INQUIRY

ABOUT THE FINANCIAL INCLUSION CENTRE

The Financial Inclusion Centre is a non-profit policy and research group which campaigns for financial markets that work for society. We focus on the financial needs of excluded or underserved, lower-medium income households. We are pleased to submit our evidence to this important Work and Pensions Committee Inquiry.

SUMMARY

1. We are concerned that the risks associated with freedom and choice have not been fully appreciated. At the time of the launch we warned that the reforms were a regressive policy, rushed and very poorly planned, and badly implemented.

2. Consumers might welcome the reforms – after all who can be against ‘freedom and choice’. But there is cognitive dissonance evident here. Consumers also want their pensions to be safe and reliable. However, consumers will be exposed to greater uncertainty and risks in the form of market, product, misselling and fraud, and longevity risks. In addition, the reforms are likely to push up the costs of providing financial advice, push up costs of saving for retirement and/ or reduce the value of pensions in retirement.

3. Savers now have a good value, collective option for accumulating retirement savings in the form of NEST. But, this will now be undermined by the additional costs introduced at the decumulation phase as a result of freedom and choice. Costs are particularly important for the groups of pension savers we focus on – underserved, lower-medium income households.

4. Sadly, some of our fears have already been borne out particularly with regard to scams. But the real damage will be done in the medium-longer term as the costs of saving for retirement are pushed up and consumers are exposed to greater market uncertainty and longevity risk. It is simple logic that when more costs are extracted from the pensions system this reduces the value of retirement savings meaning households have to save more to compensate.

5. There were, of course, problems with the old system and annuities rightly came in for some criticism. But, the old system did allow consumers to manage longevity risks. It is not progress to replace a system with some faults with a new system which exposes consumers to greater

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market, misselling/ scam, and longevity risks and ultimately pushes up the costs of saving for retirement.

6. Lower-medium income households who can afford to save comparatively low amounts are particularly affected by high costs. They are also disproportionately affected by poor advice and decision making – they cannot absorb the financial losses associated with market and misselling risks in the same way as better off households.

7. Freedom and choice threatens to reverse the very real progress made through automatic enrolment and NEST. If we think of AE/ NEST filling the pool of retirement savings[1], freedom and choice drains away those savings in the form of consumers drawing down savings and/ or the pensions and investment industry extracting value in the form of high costs.

8. But, there are interventions we can adopt now to mitigate the risks in the short-medium term. The priority is to ensure consumers have access to objective, impartial financial advice and pension decumulation 'defaults' to allow them to identify safer, better value options.

[1] The filling of the retirement savings pool needs to be speeded up anyway

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RESPONSES TO SPECIFIC QUESTIONS

WHAT ARE PEOPLE DOING WITH THEIR PENSION POTS (INCLUDING DEFINED BENEFIT PENSION ENTITLEMENTS) AND ARE THOSE DECISIONS CONSISTENT WITH THEIR OBJECTIVES? IS THERE ADEQUATE MONITORING OF THE DECISIONS BEING MADE?

9. The FCA produced an interim report as part of its Retirement Outcomes Review[2]. Over one million defined contribution (DC) pension pots have been accessed since the reforms. In most cases DC pots accessed were small (64% under £30,000). Over £10.8 billion has been withdrawn by consumers since the pension freedoms.

10. The pension freedoms have changed the way consumers access their pots. Accessing pots early has become 'the new norm'. 72% of pots since pension freedoms have been accessed by consumers under 65, most of whom have taken lump sums. Over half (53%) of pots accessed have been fully withdrawn. 90% of these were smaller than £30,000 (60% were smaller than £10,000). The vast majority (94%) making full withdrawals had other sources of retirement income in addition to the state pension.

11. Income drawdown has become much more popular: twice as many pots are moving into drawdown than annuities. Before the pension freedoms, over 90% of pots were used to buy annuities.

12. Over half (52%) of the fully withdrawn pots were not spent but were transferred into other savings or investments. This can expose consumers to greater market and product risks compared to annuities. Consumers can also miss out on valuable tax benefits.

13. The Pensions Regulator estimates that 80,000 people transferred out of their DB scheme in the year to 31st March 2017 alone[3].

14. Other FCA research paints a slightly different picture[4]. The FCA recently published data on adults who have accessed at least one of their DC pensions in the last two years. 29% of those surveyed said they have taken out an annuity. 20% are in income drawdown, and 12% have started taking money via UFPLS. 17% took their whole pension in cash in one go. Interestingly, one in four (25%) are not sure what they did.

ARE PEOPLE TAKING PROPORTIONATE ADVICE AND GUIDANCE AND IF NOT, WHY NOT? ARE PEOPLE ADJUSTING BEHAVIOUR IN RESPONSE TO ADVICE AND GUIDANCE?

15. The available evidence suggests that not enough people are accessing objective financial advice *per se*. For example, recent research from the FCA found that 11% of 55-64 year olds have had regulated financial advice in the past 12 months about investments, pensions or retirement planning. But, more than three times as many, 36%, have not had advice in the last 12 months

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[2] For summary of findings please see Retirement Incomes Review – Interim Report, MS16/ 1.2, FCA, July 2017, Chapter 1, p3-5
[3] http://www.thepensionsregulator.gov.uk/foi/number-of-people-who-transferred-out-of-their-db-schemes-last-year-may-2017.aspx
[4] Understanding the financial lives of UK adults, FCA, fig 8.15, p130

but might have a need for it. For the over 65 age group, 10% have had regulated advice in past 12 months compared to 35% who might have had a need for it[5].

16. Interestingly, in the 45-54 age group, 65% had given 'little thought' (47%) or 'not really thought' (18%) about how they will manage financially in retirement. For the 55-64 age group, 48% had given 'little thought' (35%) or 'not really thought' (13%) about how they will manage in retirement. This suggests a worryingly low level of planning for retirement.

17. The proportion of drawdown bought *without* advice has risen from 5% before freedom and choice to 30% now[6].

18. There are many reasons why people don't take advice: lack of trust in providers and advisers, low levels of financial capability, general lack of interest in financial matters, the fact that many consumers cannot afford to pay for financial advice (or the cost of advice can outweigh the gains, or that the cost of advice is perceived to be too high and not worth it.

TO WHAT EXTENT WILL PENSIONS DASHBOARDS ENABLE CONSUMERS TO MAKE MORE INFORMED DECISIONS ABOUT THEIR RETIREMENT SAVINGS? WHAT ARE THE REMAINING OBSTACLES TO THEIR CREATION AND SUCCESS AND HOW SHOULD THOSE OBSTACLES BE OVERCOME?

19. The pensions dashboard might help consumers make more informed decisions about retirement savings - if it is designed properly and is subject to proper oversight and governance controls. The evidence does suggest that in countries which have introduced dashboards, consumer engagement has gone up[7].

20. A large part of the cost of providing advice relates to the basic process of gathering and processing data about clients – 'knowing the customer'. If the data held on dashboard accounts is accurate this could be made portable so that consumers can take it with them to their adviser. This could reduce the amount of time needed for the information gathering phase of the process and, therefore, reduce the overall unit cost of delivering advice through commercial and non-profit, public channels.

21. But, we have a number of concerns about the current plans. Firstly, the government intends that private sector providers will be allowed to provide their own dashboards. This will introduce more confusion into the system and make it more difficult for consumers to make effective decisions. We will in all likelihood end up in a situation where we need external ratings of pension dashboards.

22. Moreover, there is an obvious risk that private sector dashboards will be used by these providers to promote their own products and services, not provide objective information to consumers. The ABI conducted research into seven countries which have introduced

[5] Understanding the financial lives of UK adults, FCA, Table 5.4, p74
[6] Retirement Incomes Review – Interim Report, MS16/ 1.2, FCA, July 2017, Para 4.18, p48
[7] See Pensions Dashboard Project, Reconnecting people with their pensions, Appendix 3: Country Research, p45, October 2017

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dashboards. Four of the seven countries have only a non-commercial dashboard[8]. They have done so because they recognise that having a non-commercial dashboard mitigates consumer trust problems as the dashboard is not trying to sell products.

23. It will be important that the dashboard goes further than just providing consumers with basic information about the current state of their pensions. It should have value added services that help consumers work out what they should do with the information.

24. It looks as if the Pensions Dashboard won't show information on charges on the grounds that this will confuse consumers[9]. It is crucial that the dashboard shows all the costs incurred in a clear fashion and shows the *impact* of these costs on consumers' retirement savings. Costs can have a major impact on retirement savings particularly in an era of low real returns. The rule of thumb is that every ½% of costs requires consumers to increase their contributions by 11% per month to offset the impact of costs.

25. It is important that pension schemes and providers are compelled to provide data to the dashboard, and that information about state pensions are included so that consumers can get a holistic view of their retirement planning.

26. Our final concern relates to the quality of data supplied to the dashboard. It will be necessary to allow for enough time to test the accuracy of data held on legacy pensions and the ability of this data to be recovered and made available to the dashboard.

IS PENSION WISE WORKING? IF NOT, HOW SHOULD IT BE REFORMED? ARE THERE ANY IMPLICATIONS FOR THE PROPOSED CREATION OF A NEW SINGLE PUBLIC FINANCIAL GUIDANCE BODY?

27. So far the take-up of Pension Wise has not been huge. Since its launch, there have been 161,000 completed transactions[10] – an average of 5,744 a month[11]. In the latest month, there were 6,909 completed transactions – higher than the average since it started although lower than the peak of 8,600 in March 2017. There have been 5.5 million visits to the website since it started – an average of 171,566 a month. In the latest month, there were 183,904 visits to the website – higher than the average since it started but well down from the peak of 320,537 in October 2016.

28. To get some context, over 1 million consumers have accessed their DC pensions since the pension freedoms came in. This suggests that around 15% have completed transactions using Pension Wise. Other research suggests that in the third quarter of 2016, 143,752 consumers accessed their pensions but just 13,990 had a Pension Wise appointment[12]. This equates to

[8] See Pensions Dashboard Project, Reconnecting people with their pensions, Appendix 3: Country Research, p43, October 2017
[9] See Pensions Dashboard Project, Reconnecting people with their pensions, Appendix 9: Minimum Viable Product, Details of Pension Charges, p85, October 2017
[10] See https://www.gov.uk/performance/pension-wise
[11] Our calculations
[12] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN07042

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around 10% of those accessing their pension. Both figures suggest that take up has been much lower than initial expectations.

29. Clearly, the main lesson from this data is we need to find more effective ways of getting people to take financial advice before making critical decisions. There have been attempts to test different approaches to making the Pensions Wake Up Pack more effective at getting consumers to use Pension Wise. The results have found that the most simplified form of communication in the form of a Pensions Passport was the most effective[13]. But, it must be stressed that take up across all the approaches tested was still low.

30. Critically, more must be done to raise awareness of the new single public financial guidance body and drive consumers towards the service. The body must be adequately resourced so that consumers especially those on low-medium incomes can get access to good quality, objective financial advice.

ARE THERE PERSISTENT GAPS IN THE ADVICE AND GUIDANCE MARKET AND WHAT MIGHT FILL THEM? IS AUTOMATED ADVICE AND GUIDANCE FILLING GAPS AS EXPECTED?

31. Yes there are persistent gaps. The unavoidable problem is that the commercial financial advice market *cannot* provide access to advice to the mass market of low-medium income households on terms that make commercial sense for providers *and* make financial sense for these households.

32. Automated advice may have an impact at the margins. Automated advice may help improve the efficiency of other parts of the advice process – establishing time horizons and risk tolerances etc. But we see no evidence so far to support the view that automated advice will be a 'game changer' when it comes to changing the economics of distribution and providing access to the mass market. The potential for fintech more generally has been well overstated.

33. The use of automated advice and fintech apps are replete with problems with regards to conduct of business and exploitation of behavioural biases. The differentiation between *advice* and *guidance* is artificial and simply creates even less clarity at the boundaries of information provision and personal advice.

34. The only plausible alternative is to create an alternative in the form of a subsidised, non-profit public financial advice organisation.

[13] See http://www.behaviouralinsights.co.uk/publications/improving-engagement-with-pension-decisions-the-results-from-three-randomised-controlled-trials/

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IS THERE EVIDENCE OF PRODUCT MARKET COMPETITION RESULTING IN CHEAPER, CLEARER OR A WIDER PRODUCTS FOR CONSUMERS? ARE PEOPLE SWITCHING FROM THEIR PENSION PROVIDER IN ACCESSING THEIR POTS? IS AN ADEQUATE ANNUITY MARKET BEING SUSTAINED?

35. No, we are not seeing evidence of freedom and choice creating more effective competition, or clearer product options. If anything, freedom and choice exposes consumers to more risk and complexity. Ultimately, over the long term freedom and choice will increase the costs of saving for retirement.

Risk and rewards

36. The conventional mechanism for creating an income in retirement after accumulating assets through DC type schemes has been to purchase an annuity. Annuities have many significant advantages for consumers. They can provide a 'guaranteed' and predictable income in retirement and the income is paid for the rest of the consumer's life. This means that consumers do not have to take the risk of trying to guess how long s/ he is going to live for and spread available assets over that time – which if current demographic trends continue could be a significant length of time. It is not possible to estimate with any degree of accuracy the life expectancy of an individual at the point of retirement (expect of course in the most tragic cases).

37. It is important to recognise the risks involved in generating an income in retirement. Analysis undertaken by the European Commission's Financial Services User Group estimated that a representative UK DC pension scheme saver (invested in a mix of equity and bonds) faces a downside risk (as measured by fall in pension income) of -36% due to equity risk, -20% due to bond market risk, and -17% due to longevity risk[14].

38. The very features that are considered attractive in annuities – such as certainty and predictability - have been criticised for providing lack of choice and flexibility. Concerns have also been expressed about weak competition in the market. We agree that the annuities market needed reforming. But this could have been done in a more measured, targeted way.

39. We are concerned that consumers may now have unrealistic expectations about the value of annuity alternatives and not appreciate the risks involved. There are major risks and costs involved in creating an alternative portfolio of retirement assets that would generate a cash flow in retirement similar to that produced by a more conventional annuity product.

40. It is helpful to look at what consumers would have to do to replicate the return provided by annuities. For example, the best available annuity rates for a purchase of £100,000 at 65 are: 5.2% for single life, level; 3.6% for single life, escalating, with 5 year guarantee; and 3.2% for joint life 50%, escalation[15]. We assume that an investor building an alternative portfolio would

[14] Study on the Position of Savers in Private Pension Products, undertaken by Oxera for the FSUG, 2013, Table 4.9: Falls in annual pension income under downside scenarios (%). Note that the risks were higher for UK savers compared to the other countries covered in the study. Note also that these risks might now be even higher given the asset price bubbles that have emerged in the equity and bond markets
[15] https://www.hl.co.uk/pensions/annuities/annuity-best-buy-rates

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not want to invest everything in risky equity type products and would create a balanced portfolio including some ‘safer’ assets. However, UK 15 year gilts are currently yielding 1.62% while 20 year Gilts are yielding around 1.86%[16] while the best buy cash ISAs pay 1.2%[17]. Therefore, to generate an annuity like return (net of charges), the investor (or fund manager) would have to achieve very high *net* returns on the equity part of the portfolio[18].

41. This would require the investor to take on significant additional investment market risk and volatility in retirement unless the investor has access to asset management products which claim to produce ‘guaranteed’ returns to manage the significant longevity risk in retirement (see below). But there are also major concerns about the ability of these structured products to generate the claimed returns. Moreover, providing guarantees costs money – this reduces the net return available to investors.

42. There are even more complexities involved if consumers opt for income drawdown type schemes. With these schemes, the consumer ‘draws down’ a proportion of cash from his/ her pension while leaving the rest invested to try to maintain the value of the pension pot. Consumers (or their advisers) have to think very carefully about calibrating: i). the amount to draw down; ii). the realistic rate of return (net of all charges) achievable on the remaining investments to maintain capital; and iii). longevity risk (that is, how long the money has to last for). Drawing down too much income means that the invested part of the portfolio has to generate an even higher rate of return (which exposes the consumer to even greater market risk in retirement) or increases the risk that the consumer will run out of money if estimates of life expectancy turn out to be wrong (see Longevity risk, below).

43. It is expected that the market – particularly the asset management industry – will develop and market new hybrid products as a substitute for annuities that claim to offer equity like returns but with reduced risk (in the form of volatility and downside risk). So far, there has not been a significant amount of use of these products in the decumulation market. But it is early days. The market is likely to grow so it is important to consider how suitable these substitute products might be.

44. In the wider asset management sector there has been a significant growth in the number of ‘alternative’ products such as diversified growth funds (DGFs), structured products and absolute return funds which claim to offer higher returns with reduced risk. But the question is: do these alternative products and strategies deliver? To answer this question, we need to consider the returns achieved and the costs paid by investors compared to the ‘plain vanilla’ options. What evidence there is does not look good for alternative products.

45. Take, for example, the performance of absolute return funds. As the FT reported recently, UK domiciled absolute return funds are on course to register record net inflows but two-thirds

[16] https://markets.ft.com/data/bonds?mhq5j=e6
[17] http://www.telegraph.co.uk/personal-banking/savings/average-long-term-isa-rate-creeps-but-still-pays-just-1pc/
[18] For example, if the investor spread his/ her investment evenly between gilts, cash, and equities to achieve an equivalent of 5.2% the equity component would have to produce a return of 13%. To match the 3.6% annuity return, equities would have to produce 8.5%, while to match 3.2%, it would require 7%. Remember, these returns would have to be produced after costs.

have delivered negative returns in 2016[19], failing to deliver on the basic promise of preserving capital even in difficult market conditions.

46. It is unlikely that these alternatives will meet the expectations of retirement savers who may be expecting the level of returns and low risk associated with annuities. These alternatives may appear to be beguilingly simple but the strategies underpinning them can be very complex. Selling complex products and strategies that fail to meet investor expectations creates very obvious misselling risks. More complex strategies also require more comprehensive financial advice which can further push up the costs of providing that advice. We turn now to the issue of costs.

Costs

47. In addition to risk and reward, costs are also a very important factor when providing for retirement. New hybrid products can have two sets of costs - one set of costs relating to the management of the investment portfolio and a set of costs to manage the drawdown element. Taking into account the low real returns and high charges there is a risk that an investor with the typical pension fund amount could run out of money very quickly.

48. Moreover, there are a range of set-up and on-going charges to consider when creating and managing an annuity substitute. The additional market and longevity risks means that consumers are likely to need regular and ongoing reviews of their financial circumstances to ensure they have sufficient assets to produce a decent income in retirement (and to take remedial action if necessary). If consumers have to pay for this advice and/ or execute decisions, this could involve significant additional costs over the potentially long period in retirement. These charges of course reduce the net return produced by the alternative portfolio which means that the investment part of the portfolio would have to produce an even higher return – creating yet more risks.

49. Costs on income drawdown products can be very complex. The FCA found that some of the more complex products had between nine and 16 different types of charges[20].

50. So, the overall effect in the longer term will be to significantly increase the costs (in the form of higher product and advice) costs consumers have to bear when decumulating their retirement savings pots.

[19] Financial Times, https://www.ft.com/content/077fcff8-6081-11e6-b38c-7b39cbb1138a

[20] See Retirement Incomes Review – Interim Report, MS16/ 1.2, FCA, July 2017, Table 10: Complexity of Income Drawdown Administration Charging Structure, p92

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51. Evidence from Australia would suggest that the greater fragmentation in the retirement market and the lack of a viable annuity option as a result of liberalisation, means that consumers there have to save on average 15% more to produce the same amount of income in retirement (ceteris paribus)[21].

52. The net effect is that rather than encourage greater levels of retirement savings, this could result in more consumers being priced out of the advice market and greater levels of pension underprovision – unless, of course, consumers have access to alternative sources of quality financial advice.

53. The issue of costs will take on more importance over time as DC type savings take on an increasingly bigger role in retirement savings. DC pension savings are expected to become an increasingly important source of income for later life for future generations: in particular, by 2030 it is estimated that workplace DC schemes will hold £1.7 trn, five times the £340bn held in 2015.

Impact on annuities

54. As well as introducing additional costs, and exposing consumers to more risks, the impact on the remaining annuities market also has to be considered. The removal of the longevity cross subsidy reduces the value of remaining annuities. Annuity providers are leaving the open annuity market, reducing choice for consumers shopping around in the open market. According to the FCA, in July 2017, only seven providers still offered annuities on the open market. This may weaken the effectiveness of competition over time. In other countries the absence of an annuity option is harming consumers. New Zealand saw an annuity death spiral while in Australia the absence of a genuine lifetime annuity option pushes up the cost of saving for retirement.

Other product issues

55. The role of property assets in generating a decent retirement income must also be considered. It is difficult to get precise values but around 60% of the total £6.5 trn wealth in the UK is in property – the over 65s have £1.1 trn of unmortgaged equity. For many consumers, property is the single biggest asset they have and they may be expecting to rely on home equity to boost income or provide dignity and security in old age. Yet the home equity market has so far not produced good value, effective solutions.

[21] See, Strategic Policy Centre, New Annuity Era: understanding retirement choices and the annuity puzzle

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ARE THE GOVERNMENT AND FINANCIAL CONDUCT AUTHORITY TAKING ADEQUATE STEPS TO PREVENT SCAMMING AND MIS-SELLING?

56. According to the FCA, in the last 12 months, 23% of all UK adults have experienced one or more of the following types of unsolicited approach – which could potentially be a scam: calls, emails or text messages claiming to be from the government, and offering retirement planning advice or a free pension review; a request to access a personal or company pension before the age of 55; the chance to unlock a pension early and get money, or the offer of a 'loan', 'saving advance' or 'cashback' to take advantage of a pension deal, or offered either the chance to make a high-return investment, to buy shares in a company, or both.

57. Of course, not all of these attempted scams are due to the freedom and choice reforms. But, the level of awareness around freedom and choice has created openings for scammers and other fraudsters.

58. The proposed ban on pension cold calling should help and is welcome. But, it is critical that this is introduced as soon as possible. The cold call ban needs to be accompanied by a well-resourced public awareness campaign to raise awareness. Moreover, there are concerns that the Information Commissioner's Office (ICO) does not have the resources to monitor and enforce this cold call ban when it comes in.

59. But, of course, it is not just scams we have to worry about. Scams have a devastating impact on victims. However, the greater risks with freedom and choice will arise from misselling and consumers being sold costly, inappropriate/ unsuitable products that fail to deliver and push up the cost of saving for retirement (see above).

60. It is unlikely that the pension freedom and choice reforms will be undone in the short-medium term. As is often the case with public policy errors, policymakers do not intervene unless and until there is compelling evidence of detriment that cannot be ignored. But, there are interventions we can adopt now to mitigate the risks in the short-medium term. The priority is to ensure consumers have access to objective, impartial financial advice and pension decumulation 'defaults' to allow them to identify safer, better value options. We urge the government and FCA to take the following steps:

- Introduce caps on total costs of drawdown/hybrid schemes to limit the impact on retirement savings

- In addition, providers should be required to simplify drawdown costs. Recent tests by the FCA found that nearly 60% of consumers who were presented with simply charging

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structures were able to identify the cheapest drawdown option compared to 35% of consumers in a control group who were presented with complex charging structure[22].

- As mentioned, it is expected that the asset management industry will play a big role in developing and marketing alternative, substitute products and strategies. But, the standards of conduct of business in the asset management sector have been called into question. The FCA needs to ensure that the asset management industry and advisers explain the risks involved with these products to consumers and enhance their product governance controls before marketing new products to consumers.

- The FCA must become more active in using its product governance powers to control the distribution of the most complex and risky products. The FCA has some powerful product intervention tools including the ability to temporarily restrict the distribution of products[23].

- We need to speed up the development of safer default products. In Australia, the detriment caused by freedom and choice has resulted in the Australian government consulting on the development of Comprehensive Income Products for Retirement (CIPR)[24]. These products would combine the benefits of regular, predictable income streams, longevity risk management, and *some* flexibility to access funds.

- The better option would have been to allow NEST to offer a default decumulation option. We believe this would be of significant benefit to individual consumers as it would provide them with a beacon of good value and reduce the risk of misselling if advisers were required to comply with an updated form of RU64[25]. But, the DWP inexplicably ruled out allowing NEST to do this.

- Another potential solution would be for the state to play a bigger role in providing a low risk, good value alternative. Currently, people can 'buy' extra state pension through additional national insurance contributions or receive a higher state pension by deferring the point at which it is received. These options can offer good value for many people. But given the upheaval and new risks created by the annuity reforms, we think it is worth exploring whether these options can be improved – especially for households on low and/ or uncertain incomes.

[22] See Retirement Incomes Review – Interim Report, MS16/ 1.2, FCA, July 2017, Figure 42: Proportion of participants that chose the cheapest drawdown in the experimental set-up, p97
[23] We can find only one instance where the FCA has used these powers – in 2014 to limit the distribution of 'CoCo' financial instruments to retail investors. See https://www.fca.org.uk/publications/temporary-product-interventions/restrictions-relation-retail-distribution-contingent
[24] Development of the Framework for Comprehensive Income Products for Retirement, 2016: https://consult.treasury.gov.au/retirement-income-policy-division/comprehensive-income-products-for-retirement/
[25] RU64 was a very effective intervention which supported the introduction of stakeholder pensions. RU64 required financial advisers to justify in writing to consumers why they were recommending a personal pension instead of a stakeholder pension. This had the effect of driving high charging personal pensions from the market.

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- In terms of advice, it will be important to raise awareness of the new single public financial guidance body and drive consumers towards the service. The body must be adequately resourced so that consumers especially those on low-medium incomes can get access to good quality, objective financial advice.

ARE THE FREEDOM AND CHOICE REFORMS PART OF A COHERENT RETIREMENT SAVING STRATEGY? TO WHAT EXTENT IS IT COMPLIMENTARY TO OR UNDERMINED BY OTHER POLICIES?

61. No. Freedom and choice is undermining retirement savings strategies. Automatic enrolment (AE) and NEST has been a significant success – even if more needs to be done. The freedom and choice reforms completely go against the lessons we learned when establishing AE/ NEST that voluntarism and the individual model for pension provision is not an effective way to promote sufficient savings for retirement.

62. The freedom and choice reforms threaten to reverse the very real progress made. If we think of AE/ NEST as filling the pool of retirement funds, all that freedom and choice will do is take out the plug and drain away those funds whether in the form of consumers withdrawing savings and/ or the pensions and investment industry extracting value in the form of high costs.

This marks the end of our submission
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Financial Inclusion Centre
October 2017

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