Retirement reforms and the guidance guarantee

RESPONSE FROM ICAS TO THE FINANCIAL CONDUCT AUTHORITY

22 September 2014
Introduction

The ICAS Pensions Committee welcomes the opportunity to comment on the FCA’s proposals on retirement reforms and the guidance guarantee.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

We have not responded to the individual consultation questions and our key points are set out below.

Advisory structure – DB to DC transfers

We believe that the reforms as they relate to defined benefit (DB) to defined contribution (DC) transfers are mismatched with the advisory structure. Financial advisors are disinclined to advise clients that DB to DC transfers are in their best interests. The increased scope for DB to DC transfers could result in ‘insistent customer’ issues needing to be managed. The advisory structure views a DB pension as a cash asset but it is more than that, for example, it provides a guaranteed income in retirement. For financial advisors to provide genuinely useful advice to clients, the advisory structure needs to cover this bigger picture.

The delivery partners

We observe that the word ‘advice’ and ‘advisory’ are used in the names of the delivery partners – The Money Advice Service and the Pensions Advisory Service. As they are not going to be providing financial advice, the communication strategy surrounding the guidance guarantee will need to somehow make this clear.

Delivery of the guidance guarantee

We believe that the guidance guarantee requires more structure and we have a number of comments to make on different aspects of the proposals around the guidance guarantee.

We believe that it will be a challenge for providers to collect all the information suggested by the consultation document. If there are significant gaps in the material provided, then it is likely that the guidance given will be heavily caveated and that the volume of complaints is likely to be greater as a result. There is also scope within the framework for guidance to be accessed on multiple occasions. This could become unmanageable if individuals seek to access guidance each time additional documentation is made available to the provider. Therefore, we recommend that a minimum set of information requirements is set before someone can access the guidance and a timescale for delivering the guidance is also set. The minimum information requirements should be the information which is critical to the provision of the guidance. By setting clear parameters it will be more straightforward to access the efficacy of complaints.

An electronic delivery model could be developed to collect the information which could reduce some of the burden on providers. This would encourage individuals to be more proactive but care would need to be taken to ensure that the minimum information requirements were not too onerous.

Ensuring that the scope of the guidance is appropriate is a challenge. For an individual retirement planning is not just about pensions, it is about their wider finances. Individuals also have different risk appetites and this hasn’t been addressed by framework for the guidance guarantee. Identifying an individual’s risk appetite may provide that individual with information which helps them decide how to convert their retirement pot to an income. For individuals with a DC pension an annuity or drawdown product may not meet their needs entirely and other financial products may be suitable, such as ISAs. Therefore, we recommend that guidance sessions cover a broad spectrum of options.
Paragraphs 2.22 and 4.23 set out the information that pension providers or pension trustees need to provide on the size of the pension pot. There is no specific mention of any deductions made from the pot, such as charges and penalties. We believe that there should be an explicit requirement to provide information on deductions.

The pension reforms mean that more complex tax matters need to be considered across the range of options available. We agree that this needs to be communicated as part of the guidance guarantee. However, we believe that the delivery of the guidance should not focus unduly on tax matters. Instead the providers should signpost individuals to sources of tax advice.

Key to choosing the appropriate pension decumulation product is an understanding of what income an individual needs or believes they need and the income they are likely to receive from pensions and other sources. Therefore, we believe that, as part of the guidance guarantee, individuals should receive a range of income projections across a range of options and circumstances.

This would enable the provider to highlight the probability that an individual could run out of money rather than just say that they may do so.

We appreciate that this may add to the cost of the guidance guarantee but projections could be delivered as part of an electronic delivery model. There have been advances in stochastic modelling which could add value to the guidance guarantee.

**Levy arrangements**

Our comments on the levy are limited to the proposed fee-blocks in Table 3.1. The objective is to fund the guarantee from those who are likely to benefit from the reforms. However, we believe that firms which are not FCA registered will benefit from the reforms. Therefore, wider levying powers for the FCA may be necessary to ensure that the cost of funding the guarantee is distributed fairly.

**Customers taking action with their pension fund and post-implementation review**

The consultation proposes that providers of the guidance guarantee may wish to monitor whether customers use their guidance. We believe this should be compulsory rather than desirable.

We recommend that a post-implementation review of the guidance guarantee is planned as part of the delivery of these reforms. It is particularly important that any complaints which arise are analysed to identify if poor decisions were made because individuals didn’t follow the guidance or whether the guidance wasn’t good enough.

We also recommend that in the first year of operation, that the providers undertake user satisfaction surveys with the FCA collating the results. We believe this is necessary to identify quickly where remedial action is needed to address any weaknesses.

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