Financial Conduct Authority (FCA)
Retirement Outcomes Review: Proposed changes to our rules and guidance – part 2
Low Incomes Tax Reform Group (LITRG) response

1 Executive Summary

1.1 We welcome the opportunity to continue our input into the FCA's work on the outcomes of the pensions freedom reforms and in particular the problems facing consumers resulting from these freedoms. As a reminder, our remit and expertise is on tax issues, but we feel able to comment on the broad issues raised in the consultation, given the importance of tax across the whole realm of pensions and the way it is inextricably linked with the wider issues of information, risk and return.

1.2 Our constituency often have weak literacy and numeracy skills and may not be financially savvy. However, under pension freedoms, they are required to make more complicated decisions than ever. Consumer protection must be of the highest priority here and we basically support anything that helps them with these decisions and makes costs and charges easier to understand.

1.3 We broadly agree with the proposed changes to wake up packs. In particular, we agree that retirement wake up packs should start from the age of 50 to ensure better engagement and understanding for customers. Early packs should focus on helping recipients understand whether their retirement provision is adequate (rather than what to do with the money in their pot) – in case they need to and are able to build up more savings.

1.4 Later packs should aim to encourage consumers to plan for their retirement, and to seek further help and support as necessary. The inclusion of a simple one-page A4 document,

CHARTERED INSTITUTE OF TAXATION
1st Floor, Artillery House, 11-19 Artillery Row,
London, SW1P 1RT

REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
Fax: +44 (0)20 7340 0559
E-mail: litrg@ciot.org.uk
www.litrg.org.uk

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written in plain English, with a clear call to action to visit Pension Wise as the next step, is highly desirable. Current wake up packs overwhelm and bamboozle people and are totally ineffective as they are often neither read nor understood.

1.5 However, it is worth bearing in mind that there will also always be those out there who have neither the interest nor knowledge to engage with their pension pot and who will really need to be led to Pension Wise. We appreciate that the idea has recently been dismissed by the Government, but we recommend that the FCA keep under review the option to automatically default people into a Pension Wise appointment, to provide an extra layer of protection for the most vulnerable.

1.6 Risk warnings should address the specific problem that we keep coming across of people withdrawing their entire pension pots and putting the money in the bank instead – with no specific reason for needing the cash, and triggering completely avoidable tax charges and benefit withdrawal issues.

1.7 We are hopeful that at least one outcome of these initiatives is that more consumers will seek pensions guidance – it goes without saying that Pension Wise (and voluntary sector bodies) need to be set up to cope with the extra demand. We would welcome a commitment that the necessary funding will be provided and seek some reassurances that the merger of Pension Wise into the Single Financial Guidance Body (SFGB), will not disrupt the accessibility and quality of the service at this key time.

1.8 We agree that consumers should be encouraged to consider whether an enhanced life annuity could provide their retirement income – but this should be all consumers – not just those who express an interest in purchasing an annuity.

1.9 We agree that charges can be 'complex, opaque and hard to compare' – providing the information in pounds and pence so consumers can compare charges is a step in the right direction to eliminating high or unfair charges; however we would urge the FCA not to rule out introducing a cap on charges in the future.

2 About Us

2.1 The LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

2.2 LITRG works extensively with HMRC and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

2.4 We are happy to discuss any of the points raised in this paper in more detail.

3 Introductory comments

3.1 We are pleased to be able to response to this consultation and we welcome the recognition in the consultation that many people approaching retirement are not adequately prepared.

3.2 As always, we must reiterate the point that low earners and those with modest savings sometimes lack the experience and skills needed in financial matters and require a sufficient, but not copious, supply of information about pensions in plain English whether from service providers, advisers or websites. Nowhere is this more necessary than when making decisions about pension decumulation usually a one-off event in peoples' lives and with a major and normally irreversible effect on their capital and income for the rest of their and their families' lives.

3.3 Given that the FCA[1] research shows that a significant number of people fail to consider how they are going to live in retirement and on what income, starting to draw their attention to the realities of life after work in good time can only be beneficial, even when that prospect is perhaps 15 years away.[2] That may still appear a distant horizon to those with current mortgage payments and children not yet flown the nest, but in terms of pension accumulation, it is no great term within which to build an adequate pot to see them to the end of their days.

3.4 Against that background there can be no doubt that a steady flow of gradually more detailed information of what the consumer has, what s/he actually needs and what s/he can do with it is most desirable.

3.5 As with most things pension-related, those who are informed and engaged will likely have better outcomes. In the longer term, we urge the FCA to continue working with Government to develop a Pensions Dashboard as this will surely motivate people to take an interest in their pensions saving, which will feed into this wider objective.

3.6 We now address the specific questions.

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[1] As set out in the consultation document at para 4.22

[2] Recent figures show that the average age of exiting the workforce is now 65 & 63 for men and women respectively: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/642157/economic-labour-market-status-of-individuals-aged-50-and-over-since-1950.pdf

4 Specific Questions

4.1 ***Q34: Do you agree with our proposals on 'wake-up' packs? If not, how should we change them?***

4.1.1 We broadly agree with the thrust of the proposals for revised wake-up packs. Certainly, the first one issued at age 50 must concentrate on showing the consumer their existing funds and how much they need to save to achieve an adequate income for retirement. There is a case to be made for setting a standard target, perhaps a percentage of national average wage, and the required contributions over 5, 10 and 15 years needed to achieve this over and above any state pension. Such concrete figures might do more to galvanise the saver into activity if they can see what needs to be done to make a desired retirement date and income feasible.

4.1.2 There is no point in doing more than this at age 50; the choices available for crystallisation are still too far off to be meaningful or relevant. What matters is that there is still time to take steps to increase pension contributions to ameliorate one's position. This is of high importance given the current average pension pots of some £35,000 and the inadequacy of proposed auto-enrolment rates of contribution to produce sufficient final pots.[1]

4.1.3 We agree that subsequent packs should deliver wider information on the decumulation choices available and the routes towards advice and guidance. There should however, also be space to demonstrate the potential value of pots at later stages, which would act as a nudge that there is no need to take your pension yet simply because you can.

4.1.4 Above all, the content of the packs (and particularly the covering A4 one-pager) needs to be kept simple. When it comes to pensions, giving such customers less, but more relevant, information will likely be more productive than giving them more.

4.2 ***Q35: Do you agree with our proposal to mandate specific retirement risk warnings alongside 'wake-up' packs? If not, how should we change it?***

4.2.1 It is entirely sensible to include risk warnings before people make decisions. The degrees and elements of risk are a necessary part of the information that a consumer needs in order to make a decision. Without it, the consumer is acting on only partial information.

4.3 ***Q36: Do you have any further comments on our proposals for retirement risk warnings?***

4.3.1 The list of points made at para 4.36 seem comprehensive but we would like to see sufficient emphasis put on tax and benefits implications, a realm as foreign to the majority as pensions themselves. A pointer to free and independent information here could well include a reference to the LITRG website[2] which provides the most comprehensive, up-to-date

[1] https://www.fca.org.uk/publication/data/data-bulletin-issue-12.pdf – This shows only too clearly the alarming lack of knowledge and interest people of this age have in their pensions.

[2] www.litrg.org.uk

primary source of information and guidance for taxpayers, tax credit claimants and their advisers on tax, National Insurance contributions (NIC) and tax credits.

4.3.2 LITRG's sister charity Tax Help for Older People,[1] subject to suitable funding, could also offer a pathway to specialist support where pensioners with low incomes need assistance in considering the tax and benefits impacts of their pension options – but otherwise would not be able to afford that help.

4.3.3 Reinforcing our comment in Q34 above, we would like to see warnings suitably framed to prevent people unnecessarily cashing in their pensions before they have built up sufficient funds to see them through to the end of their, and their dependents', days. In particular there is a specific problem that we keep coming across[2] of people withdrawing their entire pension pots and putting the money in the bank instead – with no specific reason for needing the cash and triggering completely avoidable tax charges and benefit withdrawal issues.

4.4 ***Q37: Do you have any comments on our proposals for the reminder?***

4.4.1 This is a welcome nudge towards guidance. However as demonstrated from the trial results, there will always be people who really need to be led to Pension Wise. We appreciate that the idea has recently been dismissed by the Government,[3] but we recommend that the FCA keep under review the option to automatically default people into a Pension Wise appointment, to provide an extra layer of protection in the process for the most vulnerable.

4.4.2 We are hopeful that at least one outcome of these initiatives will be more consumers seeking help from Pension Wise – it goes without saying that they need to be set up to cope with the extra demand. We would welcome a commitment that the necessary funding and resources will be provided and a reassurance that the merger of Pension Wise into the SFGB, will not disrupt the accessibility and quality of the service at this key time.

4.4.3 It should also be recognised that this could also lead to increased demand on the voluntary sector, given findings from some recent research:[4]

'Customers who had an appointment with the service were more likely than non-users to have taken specific steps to help them make an informed decision, such as calculating

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[1] Tax Help for Older People is a charity providing free professional advice on tax to those who cannot ordinarily afford to pay advisers' fees: www.taxvol.org.uk

[2] Expressed in the first part of our response to this consultation: https://www.litrg.org.uk/sites/default/files/180806-LITRG-Response-Retirement-Outcomes-Review-FINAL.pdf

[3] https://www.ftadviser.com/Articles/2018/01/26/FTA-default-guidance

[4] See Executive Summary: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/653621/pension-wise-service-evaluation-full-year-findings.pdf

desired retirement income, talking to pension providers, shopping around for quotes, looking into tax implications and charges, and considering investment options. For example, following their appointment 72% of customers calculated the income they needed in retirement, compared with 57% of those who had only used the Pension Wise website, and 29% of non-users during a similar time period.'

4.4.4 We welcome people undertaking further research about the tax implications of their various choices, but this has knock on effects on bodies like Tax Help For Older People (see also our response to Q36) who are already struggling with limited resources.

4.5 ***Q38: Do you agree with our proposal to require firms to ask consumers questions that will help a consumer determine whether he or she is entitled to an enhanced annuity?***

4.5.1 We agree strongly with the proposal that firms should ask such questions. It is surely already required practice for an adviser to do a full fact find before attempting to recommend appropriate financial products and we cannot understand how an adviser could possibly make personal recommendations to a client on a lifelong product such as a pension, without being aware of how long that life is likely to be.

4.5.2 The average consumer has little or no idea of the annuities market before their first sorties into crystallisation, has probably never heard of enhanced or impaired lives annuities and may well be unaware that they can shop around anyway. They will have little idea of what information they should provide and it is a duty of the adviser to extract, collate and present all the relevant facts.

4.5.3 Indeed, we would go further and suggest that all consumers should be made aware of the enhanced life annuity potential option – not just those that have already decided to take an annuity – and at an early stage.[1] As stated in para 5.1 of the consultation document, annuity sales have plummeted in recent years[2] and to limit the provision of sensible information on enhanced life annuities based on those that have already decided to take an annuity is to exclude huge numbers of people from understanding that this choice is available to them and potentially accessing this important pension product.

4.5.4 As we have said before, when it comes to pension freedoms it is important that people can understand *all* the different options that are available to ensure they make the *right* choice.

4.6 ***Q39: Do you agree with our proposal to require that firms include information about the consumer's potential eligibility for an enhanced annuity in the quote for comparison?***

4.6.1 As we pointed out above in our answer to Q38, the client in many cases will be unaware that they might be able to achieve a superior quote because of their lifestyle or health problems. It is only right that they should be shown a possible higher quote should those problems be

[1] We suggest that there is a mention of enhanced annuities and the circumstances in which they apply in the wake-up packs.

[2] The FCA estimate that there will be around 60,000 to 80,000 sales every year.

relevant, even if the firm itself does not offer such annuities. Not only is this part of the shopping around facility, but the figure quoted in para 5.9 of the consultation document (that up to 48% might be eligible for an enhanced annuity) seems to us to demonstrate the absolute importance of the proposed measure.

4.7 ***Q40: Do you agree with our proposal for amending the annuity information prompt requirements for income driven quotes? If not, how would you suggest we amend the information prompt to achieve our policy objective?***

4.7.1 We would agree that this seems to be a sensible proposal, although we doubt that many of the unrepresented low earners for whom we try to speak, are likely to be starting from the reverse position of asking what amount they need to achieve a given income.

4.8 ***Q41: Do you agree that key information should be summarised on the front page of KFIs?***

4.8.1 Definitely. We re-affirm our strong belief, expressed in the first part of our response to this consultation[1], that essential information should be kept simple and on one side of A4.

4.9 ***Q42: Do you agree that the summary information should show a one-year single charge figure expressed as a cash amount?***

4.9.1 Yes. Percentages are poorly understood by many, as revealed by the client contact of our sister charities, Tax Help for Older people and TaxAid.[2] A cash figure, even a caveated illustrative one, means much more to them. Furthermore the single charge figure must include all the different charges incurred, whether transaction costs, stamp duties, platform charges, management fees. etc.

4.10 ***Q43: Do you agree that information in KFIs should be presented in real terms (that takes account of inflation)?***

4.10.1 Again, yes.

4.11 ***Q44: Do you agree that a KFI should be provided when a client is accessing drawdown as an option or variation under an existing contract or UFPLS option under an existing contract, and also the first time they take an income (where this happens later)?***

4.11.1 We strongly agree that a client should receive a KFI every time a choice is exercised whether under an existing or a new agreement or contract. The unadvised in particular will need any revised figures as a result of the changes, whether it be drawdown or uncrystallised funds pension lump sum (UFPLS).

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[1] https://www.litrg.org.uk/latest-news/submissions/180807-retirement-outcomes-review-proposed-changes-fca-rules-and-guidance

[2] TaxAid is a charity which provides professional help to people of working age who cannot ordinarily afford to pay advisers' fees. www.taxaid.org.uk

4.12 ***Q45: Do you agree that firms should provide regular client communications for those who have withdrawn tax free cash but not taken an income?***

4.12.1 Yes. Firms should provide, as a minimum, an annual statement whether there have been any transactions or not. The funds are not their money; they belong to the customer on whose behalf the firm may be holding or managing the funds.

4.13 ***Q46: Do you agree that firms should regularly remind consumers to consider reviewing their decisions, particularly investment choices, rather than reminding them how to obtain advice?***

4.13.1 Certainly firms should remind consumers regularly to review their decisions, either when a fresh transaction takes place or on the annual statement should no transactions have taken place. While agreeing that for those with small pots it may well be uneconomical to pay for professional advice, there is no harm in reminding them of its availability with, perhaps, a caveat about the costs involved. Unadvised consumers who are unaccustomed to using IFAs, need as much helpful information as possible.

LITRG
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