

# Investment Pathways



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## Why have they been introduced and what does it all mean?

New legislation was introduced on 1 February 2021 requiring pension providers to offer Investment Pathways to certain individuals entering or topping up drawdown arrangements. In this article I look at the background to this legislation and what it means for advisers and clients of the FundsNetwork Pension.

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## The background

Following the introduction of the Government's 2015 pension freedoms, the Financial Conduct Authority (FCA) launched the Retirement Outcomes Review (ROR) in June 2016 to investigate how consumers and providers were responding and adapting to the new legislation. In June 2018 the FCA issued the 'ROR Final Report' and set out their findings and proposed remedies, which they have consulted on in two tranches during 2018 and 2019 (CP18/17 and CP19/5).

After concluding these consultations, the FCA issued Policy Statement PS19/21 in July 2019. The policy statement summarised the feedback received from the second consultation and set out final rules on:

- Ensuring that consumers entering drawdown only invest predominantly in cash if they have made an active decision to do so.
- Providing consumers in decumulation with annual information on the costs and charges they have paid.
- Introducing 'Investment Pathways' for consumers entering drawdown without advice.

Originally these rules were due to come into force on 1 August 2020. However, on 7 April 2020, the FCA announced that the implementation date would be delayed by six months and would therefore be introduced on 1 February 2021.

For now, I will focus solely on the rules introduced for Investment Pathways and any implications for advisers and clients of the FundsNetwork's Pension.

## What are Investment Pathways and why have they been introduced?

The ROR Final Report found that many consumers entering drawdown were choosing not to take advice (around 30% at the time of issuing the policy statement). Where no advice was received, around 1 in 3 were unaware of where the money was invested and approximately a third of non-advised consumers were wholly holding cash. Concerned with these findings and the potential for poor outcomes in retirement, the FCA have introduced new rules to strengthen the engagement with investment decision making.

Investment Pathways have been introduced so that non-advised consumers entering drawdown will be offered investment solutions that aim meet a range of different objectives for retirement and allow the individual to select a solution that best suits their plan for their pension fund in retirement.

### The objectives are split into four categories as follows:

**Option 1:** I have no plans to touch my money in the next 5 years

**Option 2:** I plan to use my money to set up a guaranteed income (annuity) within the next 5 years

**Option 3:** I plan to start taking my money as a long-term income within the next 5 years

**Option 4:** I plan to take out all my money within the next 5 years

Depending on which option is selected, the individual will be offered a 'Pathway solution' designed to meet the overall objective of that option. To give some protection against individuals selecting a solution that does not match their attitude to, or capacity for risk, providers must describe the risk level of each investment solution that they offer. In addition, the provider must also remind individuals about their option to 'Shop around' and use pensions guidance.

No official charge cap has initially been put on the pathway solutions but the FCA did comment that it expects the 0.75% charge cap for workplace scheme default investment offerings to be a point of reference. The FCA has previously stated that they will review the charging of pathway solutions one year after implementation and if they identify issues with charges, they may move towards imposing a cap.

## When providers must offer Investment Pathways?

Providers will offer Investment Pathways to an individual when:

- A consumer designates some, or all, of their pension savings into drawdown.

or

- They transfer funds already in drawdown into a new drawdown arrangement.

This is unless the provider has sufficient evidence that the individual has received advice for that specific transaction.

Providers are not required to offer Investment Pathways where the individual is accessing their pension using UFPLS, however the FCA have advised that they will continue to monitor the data that they receive from providers through Retirement Income Data Returns (RIDR) to track any regulatory arbitrage.

## So, when is a client non-advised?

Non-advised customers have not received a personal recommendation on the specific transaction in question. It does not necessarily mean that no adviser firm is connected to the individual, or that there is no adviser remuneration agreement in place. COBS 19.10.12, states that a provider will not have reasonable grounds for determining a personal recommendation has been given if this is solely based on information that:

- Is over 12 months old.
- The individual is in, or transferring from, an advised product.
- The client continues to provide remuneration to an adviser in relation to their pension scheme or drawdown fund.

If the provider does not have reasonable grounds to determine advice has been given, they would be obliged to offer the Investment Pathways choice architecture to the individual when designating new or additional funds to drawdown.

A provider can be exempt from offering Pathway solutions if it is likely to have fewer than 500 non-advised clients entering drawdown within 12 months. However, these providers would be required to offer the Investment Pathways choice architecture to any non-advised clients and refer them to either another provider's pathway solutions or MaPS's comparator tool.

### So, what does this mean for advisers?

The FCA have reminded advisers of their obligation under existing rules (COBS 9.3.3A(1)). 'When a firm is making a personal recommendation to a retail client about the investment of funds in the client's capped drawdown pension fund or flexi-access drawdown pension fund, its suitability assessment under COBS9.2.1R(1)(a), should include consideration of pathway investments'. This means consideration of Investment Pathways in the wider, more conceptual sense, as opposed to considering pathway solutions offered by the proposed scheme, or only considering a scheme that offers Investment Pathways. Advisers will be familiar with this type of guidance, as it is similar to the rules introduced in 2020, to consider workplace schemes when transferring DB pensions and not unlike the RU64 (stakeholder) rules that have been with us for some time.

However, where Investment Pathway rules differ, is the ongoing requirement for the provider to offer these solutions to an individual designating new or additional funds to drawdown, where the client is deemed to be non-advised. Therefore, advisers may wish to consider the potential for any disintermediation where clients are crystallising benefits directly with a provider that does offer Investment Pathways.

### So, what does this mean for advisers and clients of FundsNetwork?

The FundsNetwork Pension only accepts instructions to designate funds to drawdown or to transfer in drawdown assets if advice has been given to the client. Therefore, it follows that there cannot be any circumstance where a client is designating funds without advice and Investment Pathways choice architecture would need to be presented.

As no FundsNetwork Pension client will be presented with Investment Pathways Architecture, pathway solutions will not be added to our pension product as a result of this new legislation. However, for advisers choosing or creating strategies for their clients, the FundsNetwork Pension has a vast range of investment options, including, over 5,500 fund options, Investment Trusts, ETPs, individual shares, DFM links and a multitude of multi-asset risk based solutions that can be used in conjunction with our model portfolio centre if required.

If you have any questions, if you would like more information on the FundsNetwork Pension, please contact us, as a FundsNetwork representative will be more than happy to help.

**Important information**

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. This document represents a summary of our understanding of the relevant regulations at the date of its last review (March 2021). Regulations and guidance are often subject to change and may change in future. Individuals should check that rules and regulations have not changed.



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