

Retirement Outcomes Review

Summary of the
FCA's Policy
Statement
PS19/21

Following the introduction of the pension freedoms in 2015, the FCA launched the Retirement Outcomes Review (ROR) in June 2016 to investigate how consumers and providers were responding to the new freedoms. A final report was issued in June 2018 setting out the regulator's findings and a proposed package of remedies. Following a consultative process (CP19/5), the FCA has now issued their final rules on a second tranche of remedies (PS19/21). The changes are primarily designed to help non-advised drawdown consumers who struggle to make investment decisions. These can be summarised as:

- Drawdown providers must offer non-advised consumers investment pathways.
- Drawdown providers must ensure that non-advised consumers entering drawdown who invest wholly or predominantly in cash are only doing so because this is an active decision.
- Pension providers must give consumers in decumulation annual information on costs and charges.

Here we briefly summarise the key points from the paper, although you may wish to [read the full text](#) of the Policy Statement.

Investment pathways

The consumers and providers to be covered by the rules

- Providers must offer investment pathways (as outlined in the sections below) to non-advised consumers when they move all or part of their pension savings into drawdown or when they transfer funds already in drawdown into a new drawdown arrangement. Consumers purchasing ‘fixed-term annuities’ should not be caught by the investment pathway proposals.
- For the purposes of investment pathways, a consumer is an ‘advised’ consumer if they are advised on how to invest all or part of their drawdown pot. When a consumer later makes another investment decision, consumers should be treated as non-advised for the decision if it is made:
 - More than 12 months after the transaction they were advised on, or
 - Within 12 months of the transaction they were advised on and they have not confirmed that their personal or financial circumstances are unchanged since they received the advice.

The FCA has amended their rules to remove the need for providers to ask the consumer whether they are advised if they have clear evidence as to whether the consumer has received a personal recommendation on the specific transaction, or has not.

The regulator does not consider the fact that the consumer is paying an ongoing adviser charge to be sufficient evidence that the consumer is being advised on the specific transaction. If a consumer who is paying for advice is approaching a provider themselves, this could indicate that they’re unaware that they are paying for advice. The FCA has therefore added guidance stating that providers should tell these consumers that they are paying an ongoing advice charge and explain what that means in this context, if they wish to proceed on the basis that these consumers are advised.

- The rules on investment pathways will not apply to consumers taking UFPLS.
- Where a consumer has taken only part of their tax-free cash entitlement, and not agreed with their provider how they wish to take their remaining tax-free cash entitlement and move funds into drawdown, they should be offered investment pathways each time they move funds into drawdown.
- Firms offering drawdown to non-advised consumers should be covered by the rules and offer consumers investment pathways. This includes operators of Self-Invested Personal Pensions (SIPPs). However, the regulator has eased this requirement for small providers (as set out on page 3).

The choices that providers must offer consumers

- Consumers should be shown the following objectives to help them pick a pathway solution:
 - **Option 1:** I have no plans to touch my money in the next five years.
 - **Option 2:** I plan to use my money to set up a guaranteed income (annuity) within the next five years.
 - **Option 3:** I plan to start taking my money as a long-term income within the next five years.
 - **Option 4:** I plan to take out all my money within the next five years.

The wording of the objectives is mandated (although the FCA will review the wording periodically) and there should be clear labelling on the pathway solutions.

- Investment pathways are intended to benefit some of the most unengaged consumers entering drawdown. To ensure maximum engagement, the FCA has issued a rule that limits providers to one pathway solution for each investment pathway objective (so that consumers do not have to make a further choice between investment solutions). However, the same pathway solution does not have to be offered to all consumers selecting the same investment pathway as there could be circumstances where it makes sense to offer different solutions (such as where a provider offers target-dated funds for consumers in different age ranges).
- The regulator wants to ensure that consumers do not select a pathway solution if the risk profile of the solution does not match their attitude to, or capacity for, risk. Providers must therefore describe the riskiness of each investment solution that they offer to enable consumers to make this assessment.
- The regulator does not want to prescribe in detail how providers should present investment pathways amongst the other investment options they may offer to their non-advised consumers. However, a number of requirements have been made to ensure that providers give investment pathways a prominent place in the non-advised consumer journey.
- Providers can offer investment pathways to consumers without giving a personal recommendation, although providers will want to ensure clear communications to avoid misperceptions in this regard.

The requirements for providers

- The FCA rules relating to offering pathway solutions:
 - Do not prescribe the investment solution or risk profile providers should adopt for each investment pathway objective.
 - Allow providers to offer pre-existing investment solutions for any of the investment pathway objectives as long as they meet the relevant objective.
 - Prevent providers from offering the same pathway solutions for all the objectives.
 - Require providers to label pathway solutions clearly with the name of the investment pathways objective they are linked to.
 - Prevent providers from labelling any other investments in ways that imply they are a pathway solution.
- Providers with fewer than 500 non-advised consumers a year entering drawdown are allowed to choose to not offer pathway solutions for any of the investment pathway objectives. These providers would still be required to offer the investment pathways choice architecture but would instead have to refer consumers who select an investment pathway objective to either:
 - Another provider's pathway solutions, or
 - The MAPS (Money and Pension Service) drawdown comparator tool.

Other key elements

- The FCA has laid out product governance requirements applying to providers offering pathway solutions.
- Consumers using investment pathways must receive the following information within their annual statement:
 - A statement reminding them of the current size of their drawdown pot, in pounds and pence, and their investment pathway choice.
 - Information on the other investment pathways available to the consumer.
 - A statement reminding the consumer that they can switch their investments at any time or move into another product at any time and that they should shop around before doing so.
- If the consumer has not made any changes within five years of entering their investment pathway, or after a further multiple of five years, their provider should consider including in their next annual statement:
 - A statement reminding the consumer that five (or 10, as relevant) years has elapsed since they selected the investment pathway.
 - An enhanced prompt to the consumer to review their investment decision.
- The regulator has issued a non-exhaustive list of the areas where they consider it most important that providers keep good records.
- Providers will be given 12 months to implement these changes from the date the FCA issue their final rules and guidance.

Ensuring investment in cash is an active decision

- The FCA's rules on making cash an active decision and providing cash warnings will apply to non-advised consumers when they move funds into drawdown, or transfer funds already in drawdown to another arrangement (the regulator is continuing to consider whether the rules should also cover 'cash-like' investments).
- Providers should ensure non-advised consumers entering drawdown, or transferring assets from another fund in drawdown, only invest wholly or predominantly in cash or cash-like assets if they make an active decision to do so.
- When non-advised consumers have made an active decision to invest wholly or predominantly in cash, their provider must give them a warning about the potential risks of cash investment. This applies to all investment options, including pathway solutions.
- Consumers who remain in cash must be given a cash warning at least annually (which can be issued with the annual statement or on the policy anniversary, if desired).
- Providers should keep records that will allow the FCA to monitor compliance with their requirements.
- The implementation period for these changes is 12 months.

Actual costs and charges information

Firms need to provide information on the actual costs and charges both advised and non-advised consumers are paying for their pensions post-sale, during the decumulation phase:

- Providers of personal or stakeholder pension schemes should provide consumers in decumulation with annual information on all the costs and charges they have paid on their pension pot. If a firm does not have the information necessary to comply, it must take reasonable steps to obtain it. If, despite having taken reasonable steps, the firm is still unable to comply, the firm should provide consumers with a reasonable estimate or provide a written statement to explain what costs and charges are not included in the figure provided.
- This information should be provided to consumers in drawdown, and consumers who have withdrawn at least one UFPLS payment.
- It should include transaction costs, be aggregated, and be presented to the consumer as a pounds and pence cash amount.
- To enable some firms to use the same systems and data they currently use to comply with MiFID disclosure requirements, a particular methodology to calculate transaction costs has not been mandated.
- When disclosing actual costs and charges, firms must state whether any adviser remuneration has been paid out of the product.
- These requirements do not apply to products, such as 'fixed-term annuities', where the costs and charges of the product are built into the price.
- Firms have 12 months to implement the proposals from 1 August 2019.

Firms must provide costs and charges information within the annual statement.

FundsNetwork welcomes the FCA's final rules

The publication of the FCA's final rules on investment pathways will help with the successful implementation of investment pathways against the challenging timeline of 1 August 2020, and we believe the new measures proposed will support non-advised customers who need more structured retirement solutions to choose from.

However, investment pathways address a symptom with a number of causes – namely to ensure those seeking guidance, or advice, are able to access it. As the FCA continues to review the impact of the Financial Advice Market Review we hope to see more impactful steps taken to improve the accessibility of financial advice and to liberate the provision of guidance.

For more insights and analysis relating to pensions and the wider retirement landscape, visit our 'Technical matters' area.

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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 (August 2019). 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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