

Pension transfers and early exit charges: consultation

Citizens Advice response



Executive Summary

Six months on from the introduction of pension freedoms, it is worth noting how far we have come. Over 200,000 people have accessed their pension savings for the first time and more than 20,000 have used the new Pension Wise one-to-one guidance service. Many consumers have enjoyed a smooth process, got the specific products they wanted and avoided exit charges.

However, for a significant minority the experience has been very different. We want all consumers to have good experiences accessing pension freedoms and are therefore calling for improvements in four key areas:

- **Advice requirements:** It is important that consumers with safeguarded benefits in their defined contribution (DC) pensions do not give them up without realising what they are losing. Our evidence suggests that advice requirements are not being applied consistently or communicated effectively.
 - 81% of Pension Wise staff have seen clients who are worried about having to pay for advice - half say it is common for clients to not know *why* they are required to take paid-for advice.
 - There is excessive variance on policies for transfers in and out of pension schemes between firms and between contract and trust-based schemes. Some need advice even when not required by law or regulation.

- **Exit charges:** High charges are seen as unfair by consumers and can damage confidence in pensions. We are concerned that:
 - 73% of Pension Wise staff have seen clients worried about exit charges.
 - We estimate that more than 2 million consumers will face a charge of over £50, while 896,000 could face exit charges above 5%.

- **Delays:** It is important that consumers don't suffer from unnecessary delays when withdrawing their pensions.
 - Over half (55%) of Pension Wise staff have seen clients worried by delays.
 - 16% of all staff said it is common or fairly common for clients to have *experienced* delays directly.

- **Product choice and shopping around:** We have seen many pension customers who have been frustrated that providers will not let them withdraw their savings as they wish. This erodes confidence in pension freedoms.

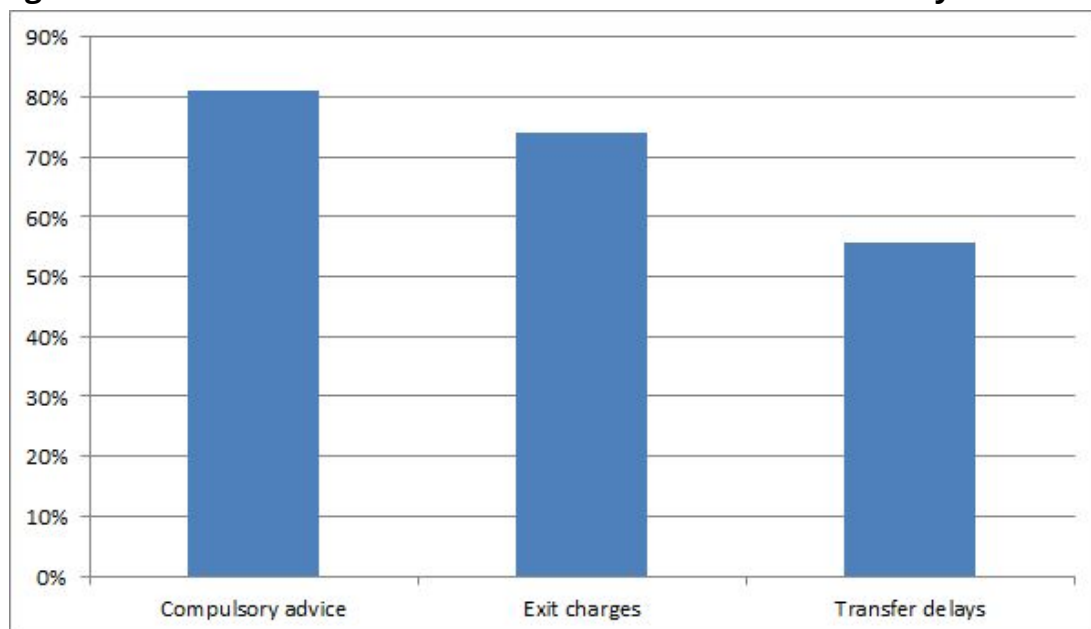
While efforts are made to improve the pension transfer process for consumers, it is vital that this is complemented by ongoing work to empower consumers. However frustrating and unfair exit charges or delays may be, they will never be as bad for an individual consumer as losing their whole pension to a scam. So the focus should

remain on how pension decumulation can be made better and safer for consumers both in terms of their experience and confidence.

We make the following recommendations:

- **Charges should only be permitted for genuine administrative costs of exit or transfer and should be capped below £50.** It is in the interests of consumers, government and pension firms for charges to be reasonable.
- **A maximum pension transfer time limit should be introduced.** We believe 15 days could be a reasonable target, but government should work with industry to understand how this could be done and what limit could be used without increasing threat of scams.
- **The government should clarify advice requirements for providers and review how consumer protections around GARs can be improved.** The current approach is frustrating consumers and may be counterproductive.
- **Providers should review their communications around advice requirements** to ensure that consumers understand exactly why they are being told to pay for financial advice before accessing their savings.
- **Product choice and comparison should be improved.** Providers should continue developing products to support pension freedoms so that consumers can be pointed towards comparison tools to find products that suit their needs.
- **The governance and regulation of decumulation products should be strengthened** to ensure consistently high standards across accumulation and decumulation as well as across trust and contract base.
- **Market Value Adjustments should be clearer.** Where MVAs or other investment deductions are applicable, providers should make the exact cost and the date when they can be avoided clear to consumers.

Figure 1: Pension Wise staff who have seen clients concerned by each issue



Introduction

Citizens Advice is a national charity which delivers advice services from over 3,300 community locations in England and Wales, run by 338 registered local charities. We are helping more and more people to make informed decisions about their pensions. Last year over 310,000 people sought help from us with their pension, up from 220,000 in 2013/14. We have a good understanding of how consumers think about pensions, both through our Citizens Advice service and through delivery of face-to-face Pension Wise sessions, which began in April 2015.

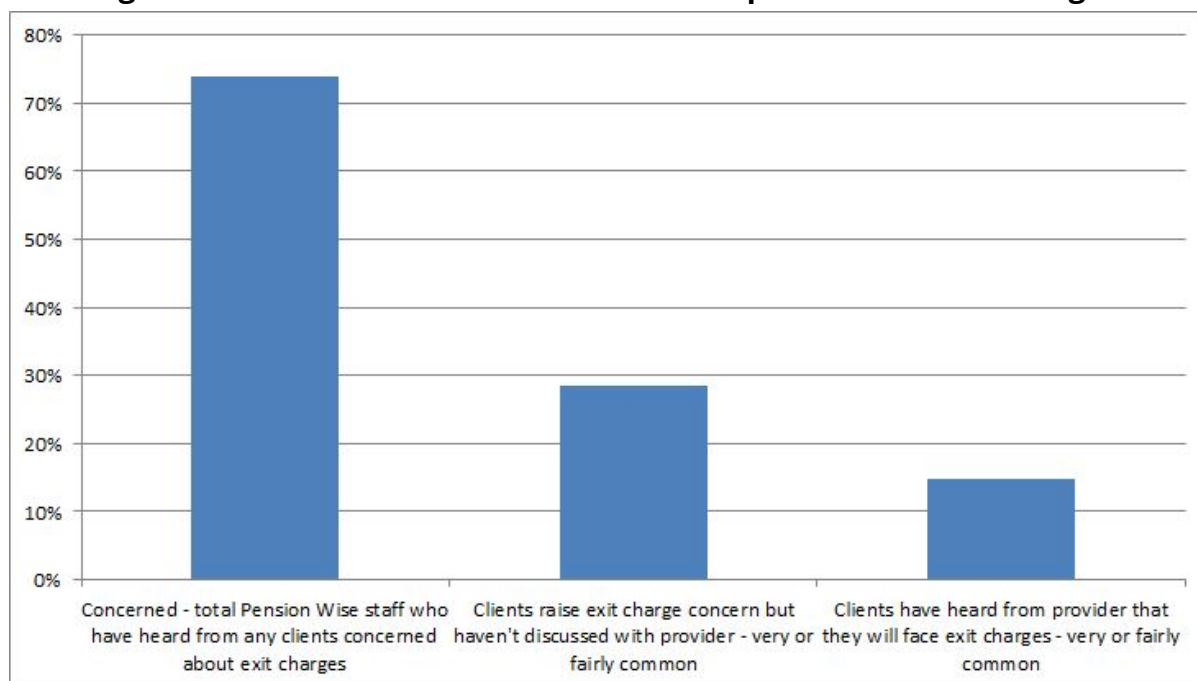
This response includes results from a short survey of 212 Citizens Advice Pension Wise staff which took place between 8th and 15th October 2015.

Early exit charges

Question 1: Do you have any evidence as to the scale and quantum of fees and charges that members might incur for leaving their scheme or accessing their benefits early?

We surveyed Pension Wise staff to understand consumer experiences of pension freedoms. As Figure 2 illustrates, nearly three quarters (73%) of Pension Wise staff have seen clients who are concerned about exit charges.

Figure 2: Pension Wise staff on consumer experiences of exit charges



We found that some clients visit Pension Wise after hearing about exit charges from their providers - 15% of all guiders said it was either 'very common' or 'fairly common'

for clients to be concerned about charges *after* speaking to their provider. This was less than the 27% who said it was very or fairly common for clients to be concerned about fees without having confirmed with their provider whether they would incur charges. The difference between the figures may suggest that the perception of charges is greater than the reality, or that many consumers come to Pension Wise before talking about the specifics of exit charges with their provider.

We are also conducting specific research with consumers about their experiences of accessing their DC pension savings since April. We will publish this early next year.

In developing this response we have drawn on the useful data published by the Financial Conduct Authority (FCA) and the Pensions Regulator on 16 September.¹ We estimate that more than 2 million contract-based consumers are currently in line to face exit charges of more than £50.² The FCA finds that nearly a million (896,000) customers could be facing exit charges of over 5%, while more than 1.25 million will face a charge of over £250. This includes 39,000 facing a charge of over £5,000.³ It is worth noting that these figures do not include trust-based schemes, so real levels are likely to be higher.

We note in the regulators' data that more people under 55 will avoid any exit charge (89.6%) than those aged over 55 (83.6%). This suggests that the number of people facing exit charges could fall over time. However, there is a tail of customers who will pay particularly high fees and this does not seem to be improving for under 55s. Whereas 2.6% of customers over 55 will pay an exit fee of more than £1,000, almost as many under 55s (2.4%) will pay a similar fee. This suggests that in future it is likely that fewer consumers will pay exit charges, but that action may be needed to ensure that excessive charges are eradicated.

Question 2: Are you aware of any evidence of charges that are levied at, or above, an individual's selected pension age? Are there any examples of customer detriment as a result of late exit penalties, and charges at an individual's selected pension age?

Nothing to add.

Question 3: In your view, what would constitute an 'excessive' or unfair early exit charge? Please include any fees and charges that you would consider to be outside this definition and why.

¹ The Financial Conduct Authority, FCA pension freedoms data collection exercise: analysis and findings, September 2015 and The Pensions Regulator, 'Survey on Flexible Pension Access, September 2015.

² This is using FCA figures on numbers of consumers incurring exit charges. The FCA figures include a band of fees <£250. For the figure of those paying more than £50, we assume that there is even distribution of fees and therefore that 80% of these consumers will face a fee of between £50 and £250.

³ These figures are from The Financial Conduct Authority, FCA pension freedoms data collection exercise: analysis and findings, page 30.

It is in everyone's long term interests for exit charges to be reasonable. In general, we think an exit charge should reflect the actual cost to a provider arising from the customer's decision to move their pension savings. We believe there should be a strict interpretation of 'actual cost' as set out below.

It is clearly beneficial to consumers if exit fees are reasonable. They will feel more empowered if they can choose the pension product that best suits their own circumstances without paying excessive exit charges. Our experience of helping consumers with pensions paperwork suggests that in many cases, the charge and the circumstances in which it would be levied was not made clear to customers when they began contributing to their pension.

It is questionable whether locking customers into very long-term contracts with high penalties is acceptable in any consumer market. While we can see some justification for exit charges in consumer markets where they are made clear and are relatively short-term - such as a 2 year mobile phone contract or a 5 year fixed ISA - we do not see a reasonable justification for long-term contracts especially where information may not have been made clear. A useful comparison is early repayment charges on mortgages, which are defined as unusual or onerous terms. The Financial Ombudsman says:

"an early repayment charge does not form part of the contract *unless* it was brought fairly to the attention of the consumer, before they committed to the contract."⁴

We believe that similar principles should apply to the pensions industry, well documented for its asymmetry of information and knowledge.

It is also beneficial for the government if exit charges are regarded as reasonable. The pension freedom agenda will be hindered if people do not feel that they have fair access to their pensions.

It is also good for the pensions industry if charges are seen as reasonable - a perception that customers have to pay unfair fees to access their pension savings could have a detrimental impact on long-term pension saving. A feeling that pensions are hard to access already exists and puts some individuals off saving. So an ongoing *perception* that pensions come with high exit charges is likely to deter people from saving in pensions in the future - they may put their money in ISAs, property or other investment vehicles instead.

We note from the FCA report that the main rationale for exit charges cited by providers is to recover sunk costs (such as commission payments) rather than to cover the administration costs of a transfer or exit. Other rationales given seem to amount to covering lost profit.

⁴http://www.financial-ombudsman.org.uk/publications/technical_notes/mortgages-early-repayment-charges.html

We do not consider that these arguments remain tenable in the context of the new freedoms which will, over time, very significantly increase the volumes of consumers seeking to transfer between schemes. We therefore believe exit fees should only be permitted to cover the actual administrative costs of an exit or transfer. As we set out in our answer to Question 6, we believe that fees should be capped at a maximum of £50.

Question 4: Are you aware of any evidence of exit charges impacting on individuals' decisions to access the flexibilities? Are there any examples of individuals losing out as a result of not being able to access the flexibilities in these circumstances?

The size of charges levied on some customers, as set out in the FCA report, is bound to impact decisions on the use of flexibilities. We have not yet got any specific evidence on this, but plan to publish research early next year.

Question 5: How could the simplicity and transparency of market value adjustments and other investment deductions (as opposed to exit charges) be improved to increase customer understanding of such fees?

It is vital that customers are given clear and accurate information on which to base their decisions. If a market value adjustment (MVA) or reduced bonus will apply to them, providers must make clear what the reduction will be and in what circumstances it will apply. They should also show how the customer can avoid the deduction and make it administratively easy for them to do so. For example they should:

- Show the effect of the deduction in pounds and pence.
- Say on what dates an MVA would not apply and make it simple for customers to choose such a date for their transfer. Moreover, where a deduction could go up or down if the customer decides to wait this should be clearly explained.
- Talk to the customer on the phone to ensure they understand the deduction and how they can avoid it.
- Use plain English rather than relying on technical terms like Market Value Adjustment.
- Make it easy for customers who wish to do so to check whether an MVA or terminal bonus has changed. Ideally they should offer email alerts or other pro-active communications to any customer who is waiting to make a transfer.
- Seek to protect customers from the imposition of any new or increased deductions during the period between the customer initiating a transfer and it being completed.

We would like to see these good practices incorporated into an industry code of practice.

Question 6: The government would welcome views on the pros and cons of each of the 3 approaches to addressing excessive early exit fees set out in paragraphs 2.26 to 2.30. In particular, the government would be interested in views on particular components of an exit fee or other charges that should be considered to be in scope of any limit, and evidence on what might be the right level for any cap.

As set out at Question 3 above, no customer should face an exit fee in excess of the genuine administrative costs associated with their exit. We estimate that more than 2 million contract-based consumers are currently in line to face exit charges of more than £50.

We think it would be helpful for consumers (and consumer confidence) if this figure were also capped at a fixed cash amount. Given that 83.6% of over 55s currently face no exit charge (and 91.4% pay less than £250) we think a cap of zero should be seriously considered. Given that the average transfer cost for the largest providers is £37⁵, we think that the cap should certainly be no higher than £50.

We would hope that providers would be willing to reach an agreement with government that any contractual charges above this level should be waived. Legislation to override existing contracts could be considered as a last resort.

Pension Transfers

We group our response to questions 7 - 11.

Question 7: How is the current statutory process working in your opinion, and what more could be done to make the statutory process quicker and smoother?

Question 8: What are your views on adopting a separate process for transfers out where benefits are flexible? What might this process look like, and what, in your opinion, might be the risks of doing so?

Question 9: Do you have any evidence of circumstances where receiving schemes are not accepting pension transfers under the new freedoms, or are putting in place procedural barriers to doing so?

Question 10: In your opinion, what more could be done to make the process for receiving firms accepting pension transfers in quicker or smoother?

Question 11: What, in your view, is the scope for making the process for transfers more efficient through a standard approach that works for the majority of pension savers? Should this process focus on transfers in relation to flexible benefits? How might this work in practice?

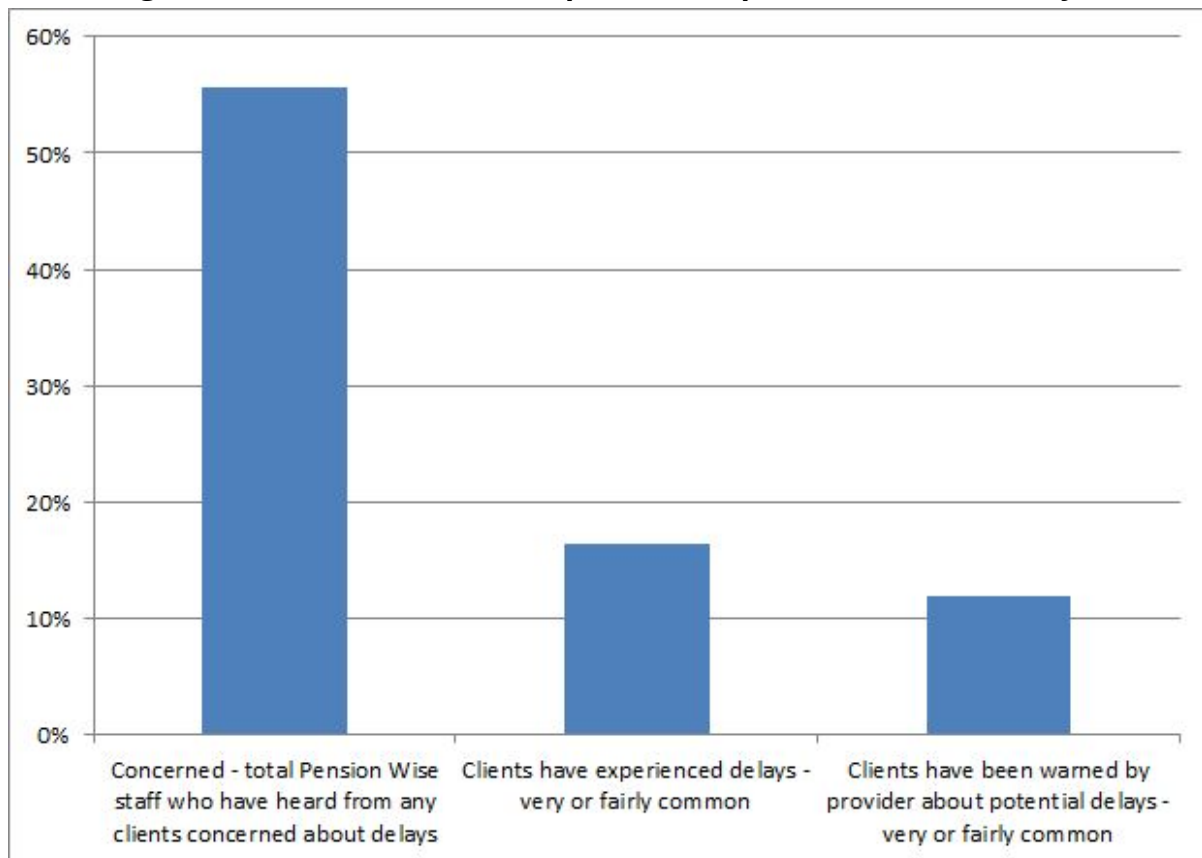
It is important that consumers don't suffer from unnecessary delays when withdrawing their pensions. As Figure 3 shows, more than half (55%) of Pension Wise

⁵ The Financial Conduct Authority, FCA pension freedoms data collection exercise: analysis and findings, September 2015, p. 28.

staff have seen clients who are worried about delays when they try to access their pensions. Whereas with exit charges perception may be worse than reality, for delays the situation is reversed.

Overall Pension Wise staff were more likely to say that clients had visited after directly experiencing delays themselves rather than simply hearing about potential delays (16% compared to 12% who said it was common or very common for each).

Figure 3: Pension Wise staff experience of pension transfer delays



We note from the Pensions Regulator and the FCA research that the customer experience is currently very mixed. The average transfer time for trust-based schemes is 39 days with some examples of people having to wait over 100 days.⁶ For contract-based pensions the FCA report gives an average of 16 days, but with considerable variation up to 191 days.⁷

From the customer’s viewpoint, a wait of several weeks is unsatisfactory and may lead to them losing out on offers or quotes that are valid only for a limited period. We suggest that a government-industry taskforce should be set up to see how transfer times can be improved while ensuring proper protection for consumers.

⁶ The Pensions Regulator, ‘Survey on Flexible Pension Access, September 2015, page 23.

⁷ The Financial Conduct Authority, FCA pension freedoms data collection exercise: analysis and findings, September 2015, page 21.

We agree that the universal principles for switching (paragraph 3.14 of the consultation) are relevant. In addition to these principles, in the case of flexible benefits, the transfer process needs to embody the following protections:

- Checking the receiving provider is registered and legitimate, and ensuring the smooth transfer of funds.
- Ensuring the customer is made aware of the transfer value, whether this might fluctuate, any consequent effects on their benefits (such as MVAs).
- Ensuring the customer is aware of the terms and charges of the new product into which they are transferring.
- Encouraging the customer to take independent guidance or advice to help them ensure they are making an informed choice.

In the case of protected benefits extra safeguards are needed but here too customers are likely to expect quick responses.

We believe that the government should work with industry to introduce a maximum time limit for pension transfers. This is important for consumers and for the reputation of pensions industry. It is important that pensions are not seen as out of date relative to other financial services or consumers markets. For example:

- Current accounts: There is a 7 working day deadline through the current account switch service.⁸
- ISA: HMRC has a 15 working day deadline for cash ISAs.⁹
- Energy supplier: Ofgem is aiming for next day transfers by 2018. There is currently a limit of 3 days after a cooling off period.¹⁰

The FCA's data shows that average times to transfer benefits out of schemes is 16 days for all firms and slightly less (13) for the largest 15. The Pension Regulator's data suggests that transfer times are longer for trust-based schemes, with a median transfer time of 30 days, although more than a quarter (27%) of transfers have been completed within 10 days.

We believe a reasonable starting point for maximum transfer times is 15 working days. This could include a pause if clients have to take advice. We would want the government to work with industry to agree a maximum transfer time that would give consumers certainty but also ensure they are not at any greater risk from scams. It would also be important to agree a timescale for this change so that providers can prepare their systems. For example, a 30 day time limit could be appropriate from 2017 and then gradually be reduced to 15 days by 2020.

Financial advice

⁸ <http://www.simplerworld.co.uk/Pages/About.aspx>.

⁹ <https://www.gov.uk/individual-savings-accounts/transferring-your-isa>.

¹⁰ <https://www.ofgem.gov.uk/press-releases/ofgem-leads-radical-shake-energy-switching-process>.

We answer questions 12 and 13 together.

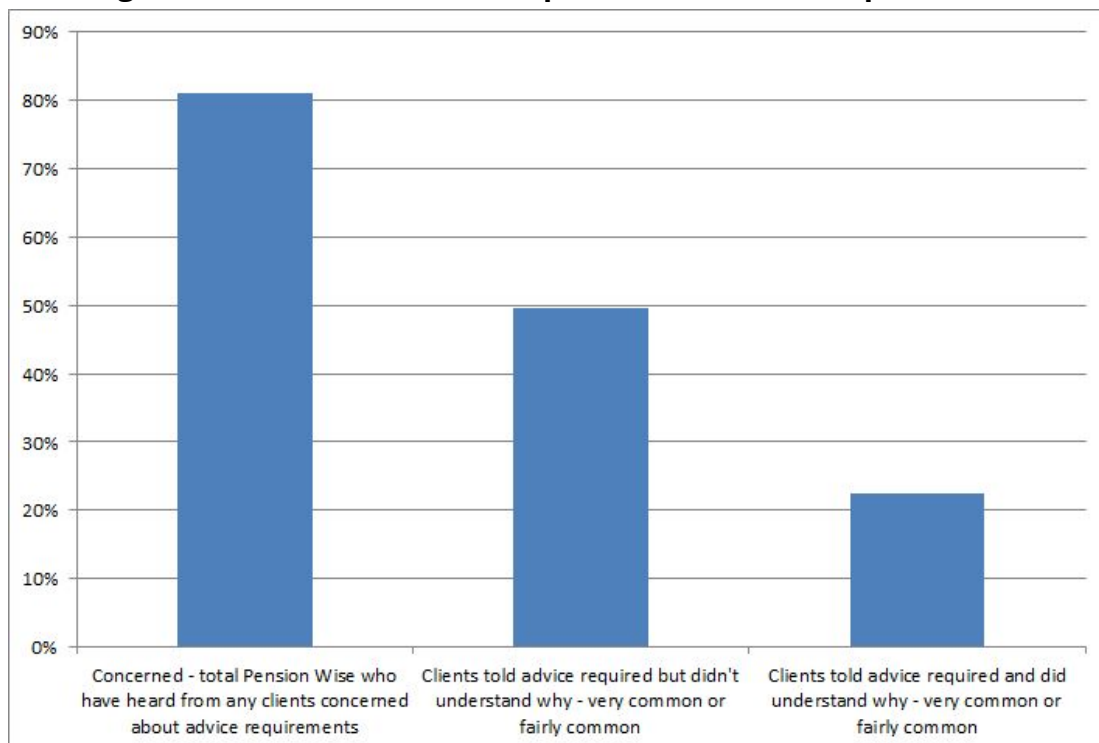
Question 12: What has been the impact of the legal requirement to receive independent advice on the process for transferring pensions with safeguarded benefits?

Question 13: How could the process for seeking advice in relation to safeguarded benefits be made quicker and smoother, and clearer for individuals, firms, and advisers?

Our research suggests that advice requirements have caused concern to more clients than either the exit charges or delays discussed above. More than four in five (81%) Pension Wise staff have seen clients who are concerned that they will be forced to pay for financial advice before they are allowed to access their money as they wish.

When clients have raised concerns about advice requirements after speaking to their providers, they are more likely to not understand *why* they need to take advice. Half of Pension Wise staff (49%) say it is common or very common for clients to have been told that they must take advice but not to understand *why* they need to take advice. This is more than twice the rate (22%) of those who say clients have been told they need advice and *do* understand why. These figures suggest that there is a serious lack of effective communication with consumers around advice requirements.¹¹

Figure 4: Pension Wise staff experience of advice requirements



¹¹ Also, 20% of all Pension Wise staff said that, having heard about advice requirements from providers, it was 'very common' for clients to raise concerns and not understand why they needed advice. In contrast, just 2% of all staff said it was very common for clients to talk about needing advice and understand why.

We strongly support the principle of having additional requirements for customers with safeguarded benefits. Many consumers will not understand the advantages of these benefits or that a defined benefit (DB) scheme may be far more valuable to them than a DC alternative.

Evidence from the regulators shows a range of different advice requirements. The FCA's evidence shows that the majority (84%) of the largest contract-based providers only require advice for customers with safeguarded benefits worth more than £30,000, although there is more variety for transferring in. For trust-based schemes, the Pensions Regulator finds that a third require all members to take independent financial advice before transferring out and a further 14% require certain members to do so.¹² Both regulators report that there may be some confusion amongst providers in terms of advice requirements.¹³

This lack of clarity extends through to Pension Wise clients' concerns and we have found considerable confusion and frustration around advice requirements. A common sentiment is that people have heard about pension freedom but don't realise that they may have to take advice to exercise it. Guiders have said clients are frustrated when they are confident of what they are doing but must pay for advice. They said problems included:

"Having to pay for advice via an independent financial adviser (IFA) if they want to take Drawdown even though they know what they are doing."

"The requirement for advice on guaranteed annuity rate (GAR) issues where customer fully aware of relative benefits - or the need for advice to transfer a relatively small DB pot."

Another cause of concern is the lack of consistency - different providers have different advice requirements. Guiders have highlighted this confusion when saying:

"Clients are being told they needed regulated financial advice when there was no legal reason for it."

"There are conflicting examples where differing pension providers have differing rules and users don't want to have to transfer to a new provider just to get at their money."

¹²The Pensions Regulator, 'Survey on Flexible Pension Access, September 2015, page 35.

¹³ The FCA identifies "some confusion among firms with regard to whether regulation or legislation drives advice requirements" and also shows some uncertainty whether receiving or losing schemes hold responsibility. The Financial Conduct Authority, FCA pension freedoms data collection exercise: analysis and findings, page 14. The Pensions Regulator reports that trust-based schemes may have problems with "interpretation of benefit structures, the definition of safeguarded benefits and the potential overlap with the definition of flexible benefits. - The Pensions Regulator, 'Survey on Flexible Pension Access, September 2015, page 6.

“Some companies are wanting clients seeing an IFA and will not deal direct with clients.”

We have also heard of consumers feeling unfairly treated in terms of definitions around exemptions for advice. Some clients feel it is unfair to aggregate the value of multiple small pots, while others have been told their pot values are higher because of guaranteed annuity rates (GARs) but don't feel they have had the value explained:

“Clients being told they need to take advice when they have two different pots under £30,000 with GARs but they are being classed as one pot even though they are different policy numbers.”

“Consumers are being forced to take paid for advice before taking non annuity options when there is GAR but pot value under £30,000. This is because pension firm says value of GAR takes real value of pot above £30,000 but there is no back up for this statement.”

There is clearly tension between helping consumers access their pensions freely and ensuring that they do not lose valuable benefits unwittingly. We believe that there are at least two options that could improve the situation.

The advice requirement should be explained clearly by providers. To make this happen, the government and regulators may need to explore what can be done to help providers understand requirements - as discussed above there is some suggestion from both regulators that some providers do not understand their obligations in full.

Providers should be able to explain whether the requirement was being imposed due to statutory, regulatory or other reasons. It would also help if providers could explain in clear language why the requirement was needed, such as that the customer was giving up protection against prices going up in future and that without it the real value of their pension may go down over time.

General

Question 14: What evidence do you have of wider issues regarding the implementation of the pension flexibilities that need to be addressed?

Scams: The greatest short term detriment a consumer can experience is losing their savings to scams. Our research suggests that pension scams are evolving and that the tactics of some scammers are shifting from liberation schemes aimed at under 55s towards encouraging over 55s to withdraw their pensions in lump sums and then defrauding them.¹⁴ We will be publishing new research on pension scams shortly.

¹⁴ See, for example, Citizens Advice, [People targeted repeatedly with pension scams, say Citizens Advice](#), August 2015.

To make best use of the freedoms consumers need to understand pension savings and to understand pension choices - most will also need advice or guidance to make those choices. We have submitted to the Treasury and others our ideas about how Pension Wise can be developed¹⁵ to provide further support in this area. And we will submit further evidence on advice issues more generally to the Financial Advice Market Review.

In parallel, action is also needed to make the market work better and to protect and empower consumers as set out below.

Product choice: The lack of product choice has been a key barrier for consumers wishing take advantage of pension freedoms. While we recognise that most large firms have new products which they expect to launch within the next six months¹⁶, the lack of choice in the first six months has frustrated many consumers. We discuss general open market option comparison below, but consumers who are told that they aren't eligible for the product they want because of their circumstances can present particular challenges. They either need to take a less preferable option or identify which decumulation providers may offer them the specific option they want. Guiders have told us:

“Many people are wanting the flexible drawdown options, but providers aren't offering it within many plans and it is very difficult for people to know how to go about finding a contract which will offer what they need. It's difficult to do it without a financial adviser and many people have concerns about this route due to costs”.

“Clients not being able to access their pension in chunks from their existing provider, such as to avoid paying higher rate tax or to avoid benefits being affected. Often providers will only offer full encashment or an annuity. Although client has option to transfer elsewhere it can be difficult for them to identify how to practically to do this.”

This situation can be particularly problematic for people with **small pots**.

“It seems that one overriding problem with the new ‘freedoms’ is that many providers don't offer all the options and so a customer would have to transfer to another provider to exercise them; whilst we say they should ‘shop around’, that isn't all that easy to do and to take financial advice is often not financially viable, thereby restricting their options in practice.”

¹⁵ Citizens Advice, [Consumer risks around pensions:Written evidence submitted by Citizens Advice to the Work and Pensions Select Committee](#), September 2015.

¹⁶ 63% of largest 15 firms expect to bring them to market in under 6 months. See The Financial Conduct Authority, FCA pension freedoms data collection exercise: analysis and findings, p. 12.

“Clients have difficulty shopping around for drawdown providers; again some are happy to take financial advice, but those with smaller pots (£50,000 or less struggle) because there is no list of DIY drawdown providers, and no summary of the charges those providers have to allow easy comparison of non-investment charges (e.g. drawdown set up charge, annual charge, individual payment charges, early closure charge, ordinary closure charge etc.).”

There are also administrative challenges for customers with very small pots. As one guider told us:

“A client with a very small pension pot (under £500) was asked to complete complex withdrawal forms by his provider, including a risk assessment.”

Helping consumers compare the market: To fully benefit from the new freedoms, consumers need to be able to understand and compare specific products offered by different providers. For some people, regulated financial advice will be a good way of doing this. For others, however, the cost or lack of availability will mean this is not a realistic option. This is particularly the case for customers with small pots:

“Clients don’t know how to shop around for flexible income options, especially when they don’t have internet access. Even with internet access, there are no simple directories listing providers.”

“A number of users also express concern about 'shopping around', one user actually asked me what I meant by 'shopping around'. Not everyone is confident what this term means and I think this can cause users to feel overwhelmed. For people lacking confidence and not computer confident or who find paperwork and finances overwhelming this can feel a big responsibility - is this the gap where scammers jump in or providers give poor value for money quotes?”

Comparing product offerings can be particularly difficult - especially as the market evolves rapidly in response to the freedoms and new products are developed - as it is not easy to find a list of which firm is offering what product and the terms are rarely set out on a comparable basis. For example, in the case of drawdown products, a wide range of charging structures is used by providers. And as discussed above, for consumers with small pots or specific requirements, it can be hard to tell which products they are eligible for.

Even before comparing decumulation products, some consumers struggle to understand what they have saved with different providers if they have different terminologies:

“Some clients have difficulties in understanding and comparing different providers’ paperwork.”

“Complexity of paperwork and administration when dealing with multiple pension pots is an issue.”

We therefore think the following steps are needed to help consumers:

- First, action is needed to ensure that charges and other features are disclosed in a comparable fashion.
- Second, common language and terms should be adopted where possible across the industry to help consumers understand their options.
- Third, there is a need for an independent web-based service (such as that offered by MAS for annuities¹⁷) which helps signpost people to providers and aids comparison.

Good information, guidance and advice will go a long way to helping people get the most out of the freedoms. However, there is also a need to look at the regulatory framework. We highlight two further issues here.

Governance of pension schemes and providers: The OFT’s 2013 market study of workplace pensions highlighted the failures of the pensions market and recommended a series of changes. The guiding principle was that market forces on their own were unlikely to deliver good outcomes for members and that government and regulators needed to set clear enforceable standards to counter the imbalance of power between individuals and providers. Legislation and FCA Rules brought key changes into effect from April 2015 including the requirement that providers should have Independent Governance Committees to oversee the value for money of their workplace pension offerings. Because decumulation products are not technically counted as ‘workplace pensions’ (even though many pots were indeed built up as workplace pensions) they are not within scope of these governance arrangements.

This has led to the anomaly that there is now independent oversight of accumulation products, but once an individual starts to decumulate they fall outside the remit of independent governance. Given that the risks to individuals, and their lack of market power, are at least as pronounced in the decumulation phase we believe the same protections should be extended to them.

¹⁷ The Money Advice Service, <https://www.moneyadviceservice.org.uk/en/tools/annuities>.

Regulation of decumulation providers: While most decumulation providers are regulated by the FCA, some providers (offering trust-based schemes) are instead regulated by the Pensions Regulator. We think it is important that all providers competing on the open market are regulated to the same standards: in particular that they are subject to a formal approvals process before they are able to offer decumulation products.