

retirement outcomes review

The FCA's Consultation Paper, Retirement Outcomes Review, follows on from the work the FCA is undertaking to assess how the market is evolving. The FCA identified harms and emerging issues that they are keen to address promptly although final rules are not expected until July 2019.

There are several themes within the paper that will potentially affect the SIPP market. Here, we give our view on some of those proposals and what we think the likely impact might be.

investment pathways

Perhaps one of the most intriguing of the proposals is a desire on the part of the FCA to explore whether firms should offer investment pathways to non-advised consumers, and also prevent firms from defaulting consumers into cash or cash-like assets.

There are no proposed rule amendments at this time because the FCA wishes to better understand the process, engage with stakeholders and determine how the implementation might affect SIPPs in particular.

Default investment pathways would be designed at a high level based on retirement outcomes, or objectives, chosen by the consumer.



Only one investment solution would be linked to each objective. The FCA is considering the implementation of 'choice architecture' – a series of questions – to allow consumers to arrive at a solution.

Our view is that the implementation of such a requirement may well generally have benefit to non-advised consumers, but there are obviously sections of the market, SIPPs in particular, where this is a difficult fit. The FCA recognises this, hence not consulting yet on rule amendments. The challenge, we feel, is whether there could be a 'one-size-fits-all' set of rules. The FCA recognises this challenge and proposes various exemptions, one of which might be for SIPP operators dealing primarily with advised or sophisticated clients. Further challenges will relate to how this in turn is defined.

If all SIPPs are incorporated into the process, we do feel that there is a real danger of diluting the value of professional financial advice, as many consumers, whether categorised as advised or not, may simply opt for what they think is the easy option at the click of a few buttons...

consumer information

The other main area that the FCA is focussing on is information that is provided to consumers as they enter drawdown (in all its flavours and colours). Some of the proposals identified are as follows:

- Earlier 'wake-up' packs – so, being issued from age 50, and repeated every 5 years;
- A summary page on key features illustrations providing, well, key information!
- Monetary fee disclosures to allow for easier product comparison;
- Producing drawdown illustration in real terms – so, subject to inflation.

We feel a lot of these measures are positive and are probably unsurprising as developments. The challenge for the FCA is dealing with the 'throw-it-in-the-bin' test – how do you actually engage consumers in the retirement process? Summary pages, more frequent but smaller communications, and realistic illustrations are, we feel, useful and will all likely come to pass.

One worrying suggestion, we believe, is the intention to move away from required wording that recommends clients seek advice, and instead simply reminds consumers to review decisions. We agree that the dynamic of drawdown has changed, so that many more individuals with smaller pots are now using the option, but fear that best outcomes may be lost if advice is not used in prompting them...

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