[In summary]

Retirement Outcomes Review

The FCA published their interim Retirement Outcomes Review in July 2017. The interim consultation closed on 15 September 2017 and we expect the FCA to issue the final report in Q2 2018. This paper is designed to summarise the key themes, findings and potential interventions raised in the review.

Background

The FCA's Retirement Outcomes Review looked at how the retirement income market is evolving since pension freedoms in April 2015. It aims to gain insight into how consumers and providers have responded to the changes, with a particular focus on consumers who do not take advice. They also outline a number of potential interventions to remedy the issues identified in the review.

The review looked at:

- How consumers who do not take advice decide how and when to access their defined contribution (DC) pension savings – do they shop around?
- What business models and products have emerged and the impact on competition
- Whether FCA regulation is overly burdensome and creates barriers to entry and expansion, or prevents useful product innovation

Review Summary

Overall the FCA found that consumers have welcomed the pension freedoms with over one million defined contribution pension pots having been accessed since the reforms. The review demonstrates that pension freedoms have changed the way consumers access their pots in the following ways: accessing pots early has become 'the new norm'; over half (53%) of pots accessed have been fully withdrawn; most consumers (94%) who fully withdrew their defined contribution savings had other sources of income in addition to the state pension, and; drawdown has become much more popular.

The FCA will issue their final report in Q2 2018

The key findings and potential remedies identified in the review are summarised on the next page

Philip Brown,
Head of policy, LV=

LV= welcomes this review into the retirement income market after the introduction of pension freedoms. We're fully supportive of encouraging people to shop around when they retire and we're pleased that this area is being explored further to ensure the market is working for consumers.

Whilst it's positive to note that consumers are exercising their pension choices and have welcomed the new freedoms, we're concerned by some of the emerging issues identified, particularly that most consumers choose the 'path of least resistance' when buying drawdown without considering all the options that could fulfil their individual needs.

We believe part of the reason behind this emerging issue is the low take-up of public pension guidance and regulated financial advice. We hope this review can act as a wake up call to the industry, regulator and policy-makers on the importance of building a quantum shift in consumer outcomes, as without exercising choice (for both product and provider) most retirees will miss out on getting the most from their retirement savings.

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The key findings

1. **Consumers who fully withdrew their pots did so partly because they do not trust pensions**
   This is typically based on perception rather than experience, driven by fear of pension scandals, a belief that their pension money is 'doing nothing sitting there' and a belief that pension rules were constantly changing to their detriment.

2. **Most consumers choose the 'path of least resistance', accepting drawdown from their current pension provider without shopping around**
   According to ABI data, consumers who take advice are much more likely to move to a new provider. The lack of engagement and shopping around amongst consumers is potentially driven by the complexities involved, particularly around charging.

3. **Many consumers buy drawdown without advice but may need further protection to manage their drawdown effectively**
   Based on the complexities of buying and managing a drawdown product, there are suggestions that it should not be sold without advice. The FCA are keen to ensure consumers are not missing out on investment growth, being exposed to investments that are too risky for them or running out of their pension savings sooner than expected.

4. **Annuity providers are leaving the open annuity market**
   The FCA understand that providers are leaving this market because of a combination of factors including the lower demand for annuities, the impact of Solvency II and the low interest rate environment. The risk they perceive here is that this consolidation in the market weakens competition over time.

5. **Product innovation has been limited**
   The FCA say that they have not seen development of new products combining flexibility and guarantees for the mass market consumers who do not take advice. However, they want to give the market further time to develop before taking any action.

Potential Remedies

- **Implement additional protections for consumers who buy drawdown without advice**
  These could include:
  - Default investment pathways
  - Charge caps
  - Extending the role of Independent Governance Committees
- **Explore options to allow consumers to access their savings early without having to move into a new drawdown product**
- **Make it easier to compare and shop around for drawdown**
- **Help consumers understand their options after pension freedoms**

To find out more about what this means for your business and how LV= can help, take a look at our 'At a Glance' document here

Benefits

- Raising awareness and potentially addressing the issue of consumers not taking advice
- Potential opportunity for you to promote the advice services you offer to help encourage take up of new clients
- Potential opportunity to support clients with their ongoing investments and income planning after they've taken drawdown.

Let us know what you think – we invite you to send us your questions or comments via **LV.com/adviser/insights**

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