The Investment Association
Camomile Court, 23 Camomile Street,
London, EC3A 7LL

T +44 20 7831 0898
E enquiries@theia.org
W theinvestmentassociation.org
Twitter @InvAssoc

Adam Summerfield & Richard Wilson
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Date: 9 August 2018

Dear Adam and Richard,

RE: CP18/17 Retirement Outcomes Review: Proposed changes to our rules and guidance – Investment Association response

The Investment Association is a long-standing supporter of greater flexibility in the provision of retirement income, allowing pension savers access to the right product at the right time in their lives. We are committed to working with the Government and the FCA to ensure that the pension freedoms are a success for pension savers.

We welcome the opportunity to respond to the FCA's CP18/17 following the publication of its final report on the Retirement Outcomes Review and attach below our detailed response to a number of the questions posed.

Our overarching comments focus on five main areas:

1. Investment pathways. In our response to the Retirement Outcomes Review interim report we set out our support for default investment strategies *once a customer has made an active choice* to purchase a drawdown product. Active choice must be made at the product level and this by definition requires a degree of customer engagement.

We therefore support the FCA's overall approach in setting out investment pathways because the proposed solutions:

- Seek to actively engage customers at the point they wish to access their pension and prompt them to consider how they should access their money;
- Seek to define customer-focused objectives for how the pension is to be accessed; and
- Leave with product providers the responsibility for designing appropriate investment strategies to meet these objectives and avoids inexperienced individuals having to get involved with making investment decisions.

We note that none of the proposed objectives refer to sustainable income. While we recognise that decisions on income require a level of consumer engagement beyond that implied by investment pathways, it would be helpful if the FCA were able to set out its

The Investment Association is a company limited by guarantee registered in England and Wales. Registered number 04343737. Registered office as above.

views on how it would expect non-advised drawdown providers to talk about the sustainability of income.

2. Independent governance of investment pathways. IGCs were set up to look after the interests of auto-enrolled workplace pension savers and where workplace pension products are extended to offer the investment pathways, there may be merit in a limited extension of the IGC remit to cover value for money assessments of the investment pathways.

Outside of this specific setting, we do not see the rationale for a more generalised expansion in the remit of IGCs. All pension savers should benefit from strong oversight mechanisms, and a range of existing and forthcoming governance obligations on firms help to fulfil this function. In particular, the FCA's forthcoming requirements for value assessments for authorised funds, many of which will be used in drawdown products, impose specific value assessment requirements at the investment fund level.

Furthermore it is important to distinguish the workplace pensions market from the advised retail and self-invested personal pension (SIPP) markets, where savers have a different kind of decision and engagement process, which removes the need for IGC oversight.

Finally, many providers of drawdown products will not offer workplace pensions and will therefore not have IGCs. Requiring these firms to set up an IGC on top of existing and forthcoming product governance and value assessment requirements will increase costs and complexity, and may disincentivise firms from entering or remaining in the market, potentially reducing consumer choice and competition in the market.

3. Disclosure. The IA strongly supports full transparency of all costs and charges incurred in the investment process as part of a comprehensive wider disclosure process. We have done significant work in this area in recent years to help our member firms implement the new requirements under MiFID II, PRIIPs, and COBS 19.8 as well as non-regulatory initiatives such as the LGPS Code of Transparency and the IDWG. As a result of this work the asset management industry is in a strong position to supply enhanced information about the costs and charges of the investment vehicles that sit inside pension products.

Consistent with our support for transparency of investment costs, we support full cost and charge disclosure to investment-based retirement income products.[1] Further work may be needed on precisely how best to communicate this information to customers. There are also significant operational challenges for providers in meeting MiFID II ex-post disclosure requirements. Based on the experience of MiFID II, we suggest some improvements to ex-post disclosure, notably making a distinction between charges and transaction costs.

We are generally supportive of the wider additional disclosures proposed for drawdown. The proposed communications are sensible although we note there may be a tension between the number of communications received over time and the need to ensure customers do not disengage because of the amount of communication received.

4. Charge cap. We support the FCA's decision not to impose a charge cap on investment pathways and drawdown products, and reiterate our response on this point to the Retirement Outcomes Review interim report.[2] As a range of regulatory and competition authority comment has noted, the charge cap is a blunt tool with potential unintended consequences. Our concern here is three-fold: a cap conflates cost with quality and drives a

[1] Although we have previously set out concerns about common transaction cost methodologies across multiple regulatory dossiers. See our response to the FCA's CP 16/30.

[2] IA response to the Retirement Outcomes Review Interim Report, September 2017.

focus on cost above all else[3]; it may limit product innovation; and it could distort the retirement income market by imposing a cap on a single product type.

The FCA's statement that firms should consider pricing in relation to the 75bps accumulation phase charge cap ties the market to an arbitrary price benchmark and could be viewed as a de facto cap. A drawdown product is more complex to administer than an accumulation phase pension product. There is additional sophistication in investment terms as well. Generating a sustainable retirement income is very different to the accumulation stage where the common goal across all strategies is to maximise retirement savings.

The danger of building to the pricing points of a related but not identical market, is that product providers are no longer able to consider approaches that are optimal from the consumer's perspective, but have to focus on those that are allowed for by regulators. This could reduce the potential for good customer outcomes and is therefore not without risk for government, regulators and industry over the longer term.

While a cap remains a possibility, these concerns will remain. We agree that firms should seek to price competitively, but believe this will be achieved through a product market characterised by transparent pricing and clear information sets, supported by purchasing and support frameworks that allow consumers access to good outcomes throughout their retirement. Clearer pricing in particular will help consumers assess the cost of products and exert pressure on providers through switching, helping keep costs reasonable.

5. Facilitating a joined up approach to retirement planning. The discussions around default pathways in workplace schemes tend to assume a single provider model where there is no other private pension provision, either because consolidation has already occurred, or because this is the only employer scheme an individual has been a member of. This is not likely to be realistic and points once again to the need for active out-reach and engagement by individuals ahead of and at retirement. While pension providers are in the best position to comment about appropriate tools, we emphasise the need to consider this issue as part of the current policy debate.

I hope this response is helpful and I would be delighted to discuss it with you further.

Yours sincerely,

Imran Razvi

Public Policy Adviser

[3] For a detailed discussion of the impact of the current DC default strategy charge cap on the DC investment market, see the IA's 2018 positon paper, 'Putting Investment at the Heart of DC Pensions'.

RESPONSE TO CP18/17 – SELECTED CONSULTATION QUESTIONS

ABOUT THE INVESTMENT ASSOCIATION

The Investment Association is the trade body that represents UK investment managers, whose members collectively manage over £6.9 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs.

The UK is the second largest investment management centre in the world and manages 36% of European assets.

More information can be viewed on our website.

CHAPTER 3 – PROTECTING CONSUMERS FROM POOR OUTCOMES

POTENTIAL REMEDY FOR DISCUSSION: INVESTMENT PATHWAYS

Q1: Do you agree with our current high-level thinking on the key elements of our potential remedy? If not, what would you suggest?

1. In our response[4] to the Retirement Outcomes Review Interim Report we set out our support for default investment strategies to implement drawdown *once a consumer had made an active choice to purchase a drawdown product.* The default decision – and consequence of that decision – for taking retirement income is very different to default arrangements during the savings phase. We strongly believe that an active choice is needed regarding how savings are accessed (annuity, drawdown, lump sum etc.). However, the design and execution of a default investment strategy should be left to investment professionals.

2. We agree that the FCA's potential remedy for investment pathways delivers this outcome:

    - It seeks to actively engage customers at the point they wish to access their pension and prompts them to consider how they should access their money;

    - It seeks to define customer-focused objectives for how the pension is to be accessed; and

[4] IA response to the FCA Retirement Outcomes Review interim report, September 2017.

- It leaves with product providers the responsibility for designing appropriate investment strategies to meet these objectives and avoids inexperienced individuals having to get involved with making investment decisions.

3. The definition of clear member-focused objectives with an appropriate investment strategy to deliver against them is a key part of DC investment governance, throughout the lifetime of DC scheme members. The IA has recently called for such an approach to be implemented systematically across the DC market, both in the savings and payout phases of DC provision[5].

4. We agree with the FCA that these pathways should not be considered optimal for every consumer – indeed it is impossible to design mass-market investment strategies that are optimal for everyone in them and the pathways are best viewed as a 'strategy of last resort'. Customers seeking a more bespoke investment strategy will retain the option to seek advice or to self-select from alternative investment options if they so choose.

5. However, we do have concerns about prescribing objectives in regulation, which we outline in our answer to the next question.

PRESCRIBED OBJECTIVES

Q2: Does the approach we are considering taking adequately capture the objectives of non-advised consumers entering drawdown who might use the investment pathways? If not, what would you suggest?

6. We agree that the objectives that consumers are asked to consider by providers should be as straightforward as possible and should reflect **all** the available options for accessing their DC pension, not just income drawdown. This is because we view this engagement as being the primary means of eliciting a customer expression on product choice. To that end we advocate customers also being prompted to consider whether they wish to purchase an annuity (although the language should be framed in terms of the client objective rather than refer to annuity purchase – see below).

7. In addition we think that some brief explanations should be offered alongside these objectives, reflecting the differing features of each option – otherwise there is a risk that consumers may choose between them without being fully aware of the implications of that choice. For example, if presented with a simple choice between "I want my money to provide an income in retirement" and "I want a guaranteed income for the rest of my life" a consumer might opt for the latter without realising that it would result in a one-off purchase with loss of control over the pension account. They may also not realise that remaining invested could generate a higher income than an annuity over a set period of time.

8. While we agree with the general approach taken by the FCA, we do not think that the objectives should be prescribed in regulation. Our major concern here is that any product innovation will not necessarily be accommodated in the prescribed objectives. For example, in future, hybrid products that combine investment and insurance approaches e.g. drawdown with deferred annuities may come onto the market. However, such products would not necessarily fit within the objectives that the FCA currently proposes. This means that the FCA will either need to re-visit the prescribed objectives on a regular basis to ensure that they remain compatible with

---

[5] IA position paper: [Putting Investment at the Heart of DC Pensions](), June 2018.

the product set in the market; or that the objectives would need to be sufficiently broad to ensure that future innovation is not hampered.

9. We think it would be better to let providers define the precise objectives, with FCA rules limited to requiring providers to have appropriate objectives in place. Guidance could set out that these objectives must reflect the options that people have for accessing their DC pots – the objectives proposed by the FCA in CP18/17 could then be shown in the guidance as examples of the sorts of objectives that could be used.

10. With regards to the prescribed objectives we also have a number of comments:

    <u>"I want my money to provide an income in retirement"</u>
    This objective could be made clearer to reflect the fact that the income is not guaranteed, which is important in distinguishing it from an annuity.

    While we recognise that actually determining income levels will require a level of customer engagement that is beyond what is implied in the investment pathways approach, we recommend that the FCA sets out its views on how it would expect non-advised drawdown providers to talk about the sustainability of income. Work that we have previously carried out on income drawdown[6] suggests that the risk of running out of money is heightened by fixed monetary withdrawals – this can be mitigated by taking an income that is a percentage of the remaining account and an income target framed in percentage terms may be safer for consumers.

    As stated in paragraph 6 we believe that the customer should also be shown an objective in relation to a guaranteed income for life, which would lead to a referral to an annuity rather than drawdown.

Q3: Do you agree with our suggestion that firms should only offer 1 investment solution in respect of each of the objectives? If not, what do you suggest?

11. Yes, we agree that for non-advised customers using investment pathways providers should offer just one investment strategy to meet each objective. As long as the strategies themselves are not prescribed (and we note there are no plans to do this), there should be ample flexibility for providers to design what they believe are the best strategies to meet the relevant objective.

12. From a consumer perspective having just one investment strategy to deliver a pathway objective avoids the need to involve consumers in investment decision-making. This is the same logic that applies to default strategies in the accumulation phase and we support the same approach here.

Q4: Do you agree with our suggestion that firms should not be permitted to provide a single investment solution to cover all of the objectives? If not, what do you suggest?

13. We would note that an investment solution can be capable of meeting multiple objectives. Investment strategies can be altered through different market environments and through time in order to meet the differing needs of investors. Accordingly, we think firms should be able to develop products that are capable of meeting multiple objectives.

---

[6] <u>Modelling Income Drawdown Strategies</u>, Investment Management Association, 2008.

NUMBER OF PATHWAYS OFFERED BY A FIRM

Q5: Do you think that firms should offer investment solutions for all the investment pathways? If not, what would you suggest? If a firm does not offer an investment solution for a particular investment pathway, should it be required to enter into an arrangement with another firm to provide it?

14. We agree with the FCA's approach here that firms should be free to offer solutions to those pathways that they wish; and that if they do not offer a solution to a particular pathway that they refer the customer to another provider who does.

NO PRESCRIBED INVESTMENT SOLUTION OR RISK PROFILE

Q6: Do you agree with the approach we are considering taking on prescription around the investment solution and risk profile of investment pathways? If not, what would you suggest?

15. Yes, we agree with the FCA's approach that providers should be left to design the investment solution to deliver against the investment pathways, including the level of risk in each strategy. As the FCA notes, providers will be better placed to assess the needs of their consumers and any prescription in this area would be tantamount to product design.

Q7: Do you agree with the approach we are considering taking on permitting firms to use pre-existing investment solutions to offer an investment pathway? If not, what would you suggest?

16. Yes, we agree with the approach here. Providers may have existing investment strategies that are capable of delivering against the pathway objectives and should be allowed to offer them to customers if deemed suitable.

FIRMS' OTHER OFFERINGS

Q8: Do you agree with the approach we are considering taking on allowing firms to offer investment solutions other than investment pathways? If not, what would you suggest?

17. Yes, we agree with the approach here. Firms should be free to offer both advised and non-advised consumers alternative investment strategies that are not linked to delivering against the pathway objectives. Greater choice should be available for consumers who want it.

CONSUMER SELECTION OF AN INVESTMENT PATHWAY: CHOICE ARCHITECTURE

Q9: Do you agree with the approach we are considering taking for the choice architecture to be implemented by firms? If not, what would you suggest?

18. We consider the choice architecture for non-advised customers to be reasonable and believe that it should help these customers reveal a preference for a particular product choice and the investment strategy designed to deliver the objectives of that product. Equally we agree that consumers should be given the option of being able to self-select investment strategies or to remain in their existing strategy (which we regard as the true default) if they so choose. The choice architecture outlined should achieve this.

19. With regards to what is an appropriate backstop investment strategy in the absence of any choice being made, we think this can only be the accumulation-phase default investment strategy, which typically will have an asset allocation reflecting the average scheme member's ability to bear investment risk. This will achieve the objective of taking some risk to protect the real value of the pension pot, while also

seeking to control volatility on the downside. It also leaves open the ability of the customer to access the pot in future.

ADVISED CONSUMERS

Q10: Do you agree that investment pathways should also be made available to advised consumers? If not, what would you suggest?

20. We do not see any harm in advised customers being able to access the investment pathways if their adviser thinks it is in their best interest. However, we consider it unlikely that many advised customers would end up in the pathways as they are likely to be seeking more bespoke solutions and are more likely to be active in their engagement and decision-making. The nature of the investment strategies sitting behind the pathways will be that they are designed with the needs of a large number of less-engaged or disengaged customers in mind.

Q11: Do you agree with the approach that we are considering taking on how we should define advised consumers for the purposes of the application of our rules on investment pathways? If not, what would you suggest?

21. We agree that advised customers should be defined separately for the purposes of applying the investment pathways rules. The proposed definition is a reasonable proxy for identifying advised customers although it should be noted that it will miss some individuals who are in fact advised. For example, an individual taking advice a number of years before entering drawdown and now implementing the advised strategy would be counted as non-advised for the purposes of these rules.

22. We note however, that there is no easy answer to this definitional question and that there is a balance to be struck between any identification measure and its ease of implementation. In any case, we do not consider this a major problem as the consequence is merely that an advised customer will end up being taken through the investment pathways choice architecture when they do not need to be. As the customer can opt to make their own choice under the architecture, we do not consider it a significant risk that advised customers end up in the pathways when they could be in a more bespoke investment strategy.

Q12; Do you agree with the approach we are considering taking in relation to circumstances where consumers are designating funds to drawdown on multiple occasions? If not, what would you suggest?

23. Yes, we agree that non-advised consumers putting their money into drawdown on multiple occasions should have to engage with the investment selection process on every occasion. The process will help reveal preferences and is not so onerous that it should be burdensome for consumers.

ANNUAL REVIEW OF INVESTMENT PATHWAY BY FIRMS

Q13: Do you agree with the approach we are considering taking to require firm review of investment pathways on an annual basis? If not, what would you suggest?

24. Yes, we agree that firms should be required to review their investment pathways on an annual basis. This should ensure that the investment strategies designed to deliver on the associated pathway objectives remain fit for purpose and in line with best practice in the market.

ONGOING INFORMATION TO CONSUMERS

Q14: Do you agree with the approach we are considering taking for ongoing disclosure to consumers about investment pathways? If not, what would you suggest?

25. A general approach in which the consumer receives annual communications reminding them of their current investment pathway as well as prompting them to consider whether the existing product best meets their needs seems sensible.

PROVIDING INVESTMENT PATHWAYS IN SELF-INVESTED PERSONAL PENSIONS

Q15: Do you agree that we should apply our remedies to the whole of the non-advised drawdown market, including SIPP operators serving this market? What would be the costs and how would the market respond?

Q16: Do you think we should consider carving out from our remedies those SIPP operators focused on advised consumers and sophisticated investors? If so, how do you think we should do this? Should we consider an alternative proportionate solution?

26. We think the critical distinction in the SIPP market is between advised and non-advised customers. In the case of the former the presence of the adviser, particularly where employed on an on-going basis, means the regulatory architecture proposed for non-advised customers is much less relevant.

27. However, because it is not always easy to identify who is advised and who is not advised (see our answer to Q11), we think it is easier not to carve SIPP operators out of the remedies. Instead, as long as the pathways are kept sufficiently simple and no additional governance requirements are put on SIPP operators (see our answers to Qs23-25 for more on this point) then there is no need to exempt sophisticated investors as they simply will not reach the stage in the choice architecture where they are presented with the pathways, because they will most likely have chosen to self-select their funds.

28. At the same time, this will ensure that those SIPP operators serving non-advised or less sophisticated drawdown customers are in scope of the investment pathways. This is important as their customer base is likely to exhibit similar characteristics to other non-advised consumers choosing to purchase non-SIPP drawdown products.

LIMITING THE SCOPE OF INVESTMENT PATHWAYS – RESPONSES TO Q17-22

29. We agree with the principle that regulation should be applied where there is the greatest potential for harm. In our view this is the segment of the market where people have accumulated pension savings through automatic enrolment, have been invested in the default strategy throughout their lifetime, and are seeking to access their pot without taking advice.

30. The advised/non-advised distinction is therefore the key identifier in the application of these remedies. However we also note that there will be some sophisticated non-advised investors who may not need the additional protections offered by the FCA's proposed remedies and these people should also be exempted from the investment pathways remedies. We think the FCA's suggestions at paragraph 3.52 are all reasonable filters for ensuring that the remedies are targeted on those non-advised customers most in need of assistance.

INDEPENDENT GOVERNANCE

Q23: Do you agree that the IGC regime should be extended to investment pathways? If not, what alternative regime would you propose?

Q24: Do you consider that a requirement for independent oversight should apply to other decumulation products (i.e. not only investment pathways)? If so, why?

Q25: Do you think we should carve out from the requirement those providers which only provide decumulation products for advised consumers, or those in less need of protection? How would this work?

31. IGCs were set up to look after the interests of auto-enrolled workplace pension savers, particularly in the context of employers making scheme selections on their behalf. Where workplace pension products are extended to offer the investment pathways, there may be merit in a limited extension of the IGC remit to cover value for money assessments of the investment pathways.

32. Outside of this specific setting, we do not support a more generalised expansion in the remit of IGCs. We agree that pension savers should of course benefit from strong oversight mechanisms and note existing product governance and other obligations on firms that fulfil this function. In particular, the FCA's forthcoming requirements for value assessments for authorised funds, many of which will be used in drawdown products, impose further governance requirements at the fund level.

33. We have noted throughout our response a difference between the automatically enrolled workplace pensions market and the advised/sophisticated retail and self-invested personal pension (SIPP) markets, where savers have a different kind of decision and engagement process, which removes the need for IGC oversight. While the distinction is not always an easy one to draw (and, as discussed above, need not be drawn for a broader application of the pathways remedy) it is important from a governance perspective because our view is that further governance requirements do not need to be applied outside the auto enrolment market.

34. Many providers of drawdown products will not offer workplace pensions and will therefore not have IGCs. Requiring these firms to set up an IGC on top of existing and forthcoming product governance and value assessment requirements will increase costs for no additional consumer benefit and may also limit the ability of firms to offer pathways, potentially reducing consumer choice and competition in the market.

NO SINGLE, DEFAULT PATHWAY

Q27: Do you agree with our current thinking that a single, default investment pathway is unlikely to suitable in drawdown? If not, please provide reasons why you disagree.

35. We agree with the FCA on this point. In our view retirement income requires a different starting point to the default arrangements for investment in the accumulation phase of DC saving. Defaults in the accumulation period encourage inertia saving, which while effective at growing pension pots raises questions about how to effectively engage with consumers as they approach retirement. As the FCA notes, providing retirement income via drawdown is a more complicated endeavour and different consumers will have different objectives for accessing their pots. This will involve different investment strategies to deliver on these different objectives.

POTENTIAL REMEDY FOR DISCUSSION: PREVENTING 'DEFAULTING' INTO CASH

CASH MUST BE AN ACTIVE CHOICE

Q28: Do you agree with the approach we are considering taking to require making investment wholly or predominantly in cash an active choice? If not, what would you suggest?

36. We agree with the proposal that consumers must make an active choice to be in cash for the reasons that the FCA sets out. Holding cash as a long term investment will pose a risk to the real value of the customer's pension pot and remaining invested with an appropriate asset allocation should help them earn a better return.

WARNINGS AROUND INVESTMENT IN CASH

Q29: Do you agree with the approach we are considering taking in relation to mandating warnings to those making an active choice to invest in cash? If not, what would you suggest?

37. Yes, we agree with the proposal to impose warnings in relation to investing in cash. In our view while investment risk is a known quantity, customers can focus too much on trying to mitigate it at the expense of exposing themselves to other risks, such as inflation. This proposal should help redress the balance somewhat.

DEALING WITH CUSTOMERS ALREADY IN DRAWDOWN AND THOSE MOVING INTO DRAWDOWN UNDER AN EXISTING ARRANGEMENT WHO ARE 'DEFAULTED' INTO CASH

Q31: Do you think that we should require firms to issue warnings to consumers who are invested in cash on an ongoing basis? If not, what would you suggest?

38. Yes, we agree with the proposal. Customers holding cash for an extended period should be prompted to consider their decision on a regular basis.

EXCEPTIONS: MINIMUM LIMITS AND COOLING OFF

Q32: Do you agree with the approach we are considering taking in relation to a minimum limit and the cooling-off period? What minimal limit would you suggest? If you do not agree with the approach we are considering taking, what would you suggest?

39. Yes, a minimum limit below which customers can be defaulted into cash seems reasonable. With regard to the appropriate limit, we think those closer to the market are best placed to advise. We also agree with allowing firms to hold customers' funds in cash for the duration of a short cooling-off period.

CHAPTER 6: PROMOTING COMPETITION BY MAKING THE COST OF DRAWDOWN PRODUCTS CLEARER AND COMPARISONS EASIER

PROPOSALS FOR CONSULTATION: CHANGES TO DRAWDOWN INFORMATION

Q41: Do you agree that key information should be summarised on the front page of KFIs?

40. Yes, we agree that summarising key information on the front page of KFIs should be helpful in getting the consumer to engage with the essential information they need to understand a new drawdown product. We support a customer research led approach to design of disclosure documents, noting that this is a challenging area.

41. We support full transparency of charges and costs, and outline below how this may best be achieved. The effect of charges can be extremely significant, particularly over long savings periods. We also observe that the discussion on the content of KFIs in the Final Report is disproportionately weighted towards presentation of charges and costs, implying to some extent that drawdown may become a generic product. This is unlikely to be the case. Linking to the broader points made earlier about clarity of investment objectives[7], there is a wider question about whether the content of KFIs should also include information about the overall objective that a drawdown strategy is seeking to deliver for a customer. This would mean that KFIs provide an information set more akin to a fund key information document, which combines cost and performance metrics with overall objective.

42. This in turn will reinforce the point that product comparison is about more than simply price in isolation and must encompass a wider assessment based on what the product is trying to deliver and the value for money it provides.

Q42: Do you agree that the summary information should show a one year charge figure expressed as a cash amount?

43. Charges affect the net outcome from an investment product and their level should clearly be part of the decision-making process of customers. We note that disclosure of the annual charge expected to be paid in the first year mirrors the approach in MiFID II ex ante aggregated disclosure.

44. We support easy to understand information that summarises the charges and costs experienced by the consumer. However, a one year charge figure may not be the right approach in isolation. It may lead to mis-leading comparisons about different charging structures and disadvantage consumers who might otherwise benefit from alternative charging structures that may look less competitive under the FCA's proposed approach.

45. We also note that the emphasis on price comparison between drawdown products does not help broader comparison between different products in the retirement market. Where are no explicit charges – notably in an annuity – it is harder for customers to understand the value proposition of competing products.

46. In the context of assumptions made by regulators in both MiFID II and PRIIPs, more work should be done to establish how different presentation of fees and costs may affect customer decision-making, while recognising the importance of comprehensive and accessible information.

Q43: Do you agree that information in KFIs should be presented in real terms (that takes account of inflation)?

47. Yes, we agree that real terms information will be more relevant for the consumer in making decisions about their future income needs. Again, we emphasise the importance of customer testing to ensure that this is implemented in a way that is easily comprehensible for savers.

Q44: Do you agree that a KFI should be provided when a client is accessing drawdown as an option or variation under an existing contract or UFPLS option under an existing contract, and also the first time they take an income (where this happens later)?

---

[7] See our comment at paragraph 3 above and the discussion on the importance of member-focused objectives in our position paper on DC investment.

48. Yes, we agree that a KFI containing information on charges should be provided at the point of moving into drawdown through a new contract or via the variation of an existing contract and also when income is taken for the first time (if this happens later).

PROPOSALS FOR CONSULTATION: COMMUNICATION TO CLIENTS

Q45: Do you agree that firms should provide regular client communications for those who have withdrawn tax free cash but not taken an income?

49. Yes, we agree that those customers in drawdown that have accessed tax free cash but not taken any income should be receiving information on investment returns, charges, income decisions, pot size and investment options. We would regard such information as basic for customers being able to determine their future income needs.

Q46: Do you agree that firms should regularly remind consumers to consider reviewing their decisions, particularly investment choices, rather than reminding them how to obtain advice?

50. We agree that advice may not be suitable for all customers and in that regard, receiving communications that remind them to consider reviewing their decisions will no doubt be helpful for such customers. Therefore we agree with the proposal to present customers with such a reminder.

51. However, we think this should be presented alongside a reminder that it *may* be in a customer's best interest to take advice on investment decisions and withdrawals. The nature of auto enrolment and long savings periods means there will in future be 'mass affluent' customers with significant accumulated pension savings who may benefit from advice but have not necessarily perceived it as being for them. We would not want to see such people discouraged from taking advice where they might benefit from it and removing any reference to the possibility of taking advice may mean fewer people subsequently go on to access it.

PROPOSAL FOR DISCUSSION: ACTUAL CHARGES INFORMATION

Q47: Do you agree that consumers should receive information on actual charges paid expressed as a cash amount?

52. Yes, we are supportive of the extension of MiFID II style ex-post pounds and pence cost and charge disclosure to pension products, subject to the points made in answer to Q42 above, and wider concerns we have previously aired about the suitability of transaction cost methodologies in the PRIIPs regulation and COBS 19.8.[8]

53. We would also suggest a distinction in how charges are presented (shown as deducting from the return achieved) as opposed to transaction costs (incurred in generating a return). This is to avoid giving the consumer the incorrect impression that transaction costs are an additional charge that further reduces the return achieved.

Q48: How do you consider this would be best achieved by firms?

54. From the perspective of investment management firms the implementation of cost and charge disclosure under MiFID II, PRIIPs and COBS 19.8 as well as client-driven initiatives such as the LGPS Code of Transparency and the on-going work of the

---

[8] CP16/30: Transaction cost disclosure in workplace pensions – [IA response](), 2017.

IDWG mean that the underlying data from the investment vehicles that sit inside pension products will be already available. However, we would note that extending the requirements to pension product providers may be a significant challenge for those firms – particularly where they have not previously been in scope of the MiFID II cost and charge disclosure requirements on distributors.