Financial Conduct Authority consults on measures to protect pension savings

General Features

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Over the summer, LITRG have been inputting into the Financial Conduct Authority‘s work on the outcomes of the pension freedom reforms and in particular the resulting problems facing consumers.

The Financial Conduct Authority (FCA) has identified that, while pension freedoms have largely been welcomed, there is still an overall lack of engagement with pensions and some people are at risk of running out of money. For example, the FCA estimates that one-third of non-advised consumers in drawdown were wholly invested in cash, with about half of these ‘likely to be losing out on income in retirement’.

They are considering the introduction of a package of measures to tackle some of the risk areas – such as default investment options (or ‘pathways’) for customers at the point of entering drawdown and new ‘wake-up’ packs, including a clear, single page summary that should be sent to customers regularly from the age of 50.

In the first of our submissions, mainly considering the idea of default drawdown pathways, we pointed out that many of our constituency are totally uninformed about pensions and will probably not even appreciate that they need to pick a drawdown product. To them cash is safe and understandable. In the longer term, more work is definitely needed to educate and reassure the general public, not only about pensions and pension freedoms, but about the detail of how drawdown works and about investing outside of cash.

However in the short term, given so many people are ill-equipped to deal with drawdown, we broadly welcomed the idea of having a more structured set of options, overseen by the Independent Governance Committee. We did however caveat this by saying that when it comes to pension freedoms, there really can be no substitute for personalised advice based on a full fact find and urged the FCA to concentrate their efforts on persuading Independent Financial Adviser's to offer free or low cost advice to the low-paid and vulnerable to help them make the right decisions.

In the second of our submissions, looking in part at 'wake-up' packs, we commented that in our view they are currently ineffective as they are often neither read nor understood. We broadly agreed with the proposed changes, in particular, that they should start from the age of 50. We suggested that early packs should focus on helping recipients understand whether their retirement provision is adequate (rather than what to do with the money in their pot) – in case they need to and are able to build up more savings. Later packs should aim to encourage consumers to plan for their retirement, and to seek further help and support as necessary.

We also stressed that they should contain a risk warning to address the specific problem that we keep coming across of people withdrawing their entire pension pots and putting the money in the bank instead – with no specific reason for needing the cash, and triggering completely avoidable tax charges and benefit withdrawal issues.

We doubt this will be the end of the FCA's work in this area and LITRG will continue to monitor developments around pension freedoms.