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Pension switching

Achieving good outcomes for clients

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Learning objectives

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By the end of this session, you will be able to:

- Document your advice process in line with the requirements of the regulator
- Identify the relevant risk factors associated with pension switching
- Identify current opportunities and potential future challenges for pension switch clients including the Consumer Duty.

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Regulatory concerns and Thematic Review

FSA concerns

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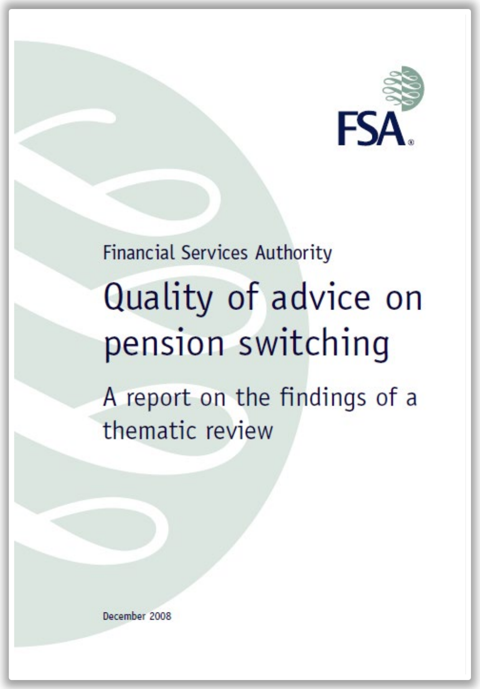
"The project was undertaken because we were concerned about the risk that consumers may have been switched into higher charging pensions with features or additional flexibility they did not need."

Source: FSA Quality of advice on pensions switching December 2008. Accessed March 2025


FSA

Financial Services Authority

Quality of advice on pension switching

A report on the findings of a thematic review

December 2008

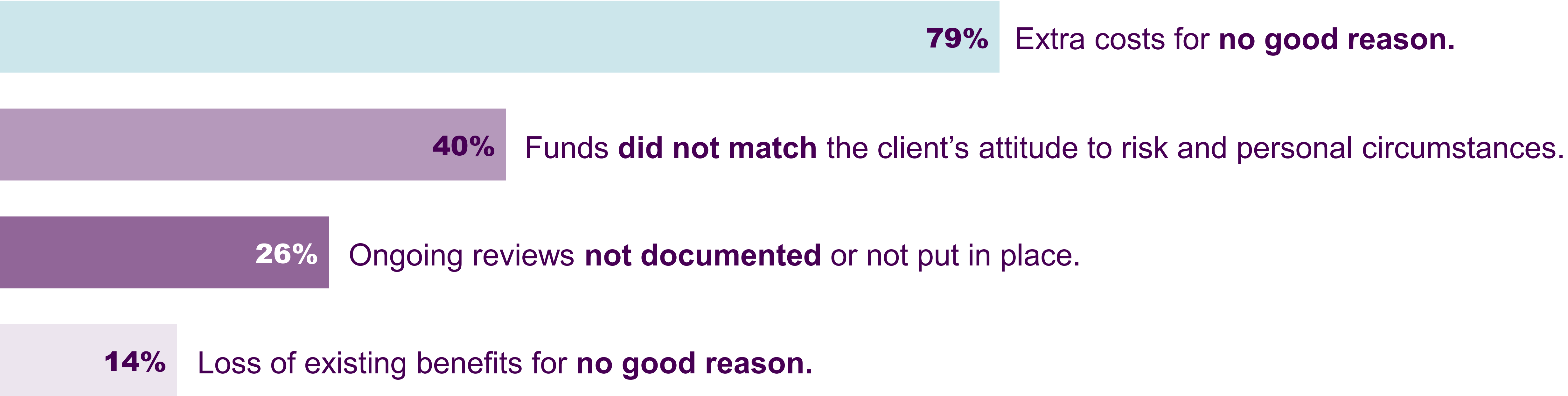
"poor suitability results were, in part, being driven by firms:

failing to obtain enough information about clients' needs and personal circumstances."

Source: https://www.fca.org.uk/publications/multi-firm-reviews/key-findings-our-recent-work-pension-transfer-advice, December 2018, Accessed March 2025

FSA Thematic Review

Unsuitable advice



Source: FSA report "Quality of advice on pension switching – a thematic review", December 2008. Accessed March 2025

Suitability of advice issues 2013/2014

Extra product costs without good reason

Recommended funds not suitable for client attitude to risk and personal circumstances

Loss of benefits from the ceding scheme without good reason

Ongoing reviews not documented or not put in place

Source: FCA webinar, Positive compliance: Advice process - pension switching, accessed March 2025

Consumer Duty

Consumer principle

A firm must act to deliver **good outcomes for retail customers.**

Cross-cutting rules

Firms must:

1. Act in good faith towards retail customers
2. Avoid **foreseeable harm** to retail customers
3. Enable and support retail customers to pursue their financial objectives.

Four outcomes

1. Product and services
2. Price and value
3. Consumer understanding
4. Consumer support.

Source: fca.org.uk/publication/consultation/cp21-36.pdf, accessed May 2022

Extra product costs for no good reason

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Existing product features not utilised or discounted

New product features not needed or used

No clear benefit to client from consolidation

Stakeholder pension not utilised or discounted

Source: FCA webinar, Positive compliance: Advice process - pension switching, accessed March 2025

Workplace pension schemes (WPS)

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Example A: Client has available workplace pension

1. Pension transfer summary:

	Keep my current guaranteed benefits	If I transfer to my workplace pension	If I transfer to another defined contribution pension
Level of my pension income currently	£833 per month	Variable	Variable
Ongoing advice charges in first year	£0	£0	-£250 per month
Product charges in first year	£0	-£250 per month	-£438 per month
Total charges in first year (excluding initial advice)	£0	-£250 per month	**-£688 per month**
Additional charges	**No**	**Yes/No**	**Yes/No**

In addition, this pension transfer advice will cost me £6,000 – this is equivalent to around 7 months' income from my current scheme.

Source: FCA - CP19/25 & PS20/6 June 2020. Accessed March 2025

Recommended funds not suitable for client's ATR and personal circumstances

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Insufficient account of investment term

Insufficient account of client's investment knowledge and experience

Insufficient account of client's objectives

No consistent or clear process adopted when assessing client attitude to risk (ATR) (including capacity for loss)

Source: FCA webinar, Positive compliance: Advice process - pension switching, accessed March 2025

Loss of benefits from ceding scheme without good reason

Valuable guarantees lost without explanation or justification

Switching out of with profits without any analysis

Protected tax-free cash

Source: FCA webinar, Positive compliance: Advice process - pension switching, accessed March 2025

Ongoing reviews not documented or not put in place

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Ongoing reviews necessary but adviser had not explained their importance or put them in place

Especially where asset allocation approach recommended – built in ‘future unsuitability’

Reviews not carried out on time or not at all despite being agreed

Source: FCA webinar, Positive compliance: Advice process - pension switching, accessed March 2025

Ongoing advice charge

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"If ongoing advice charges do not cover the costs of assessing the benefits of switching, advisers need to be able to justify this."

FCA

Source: FCA, Investment platforms market study - Final version, MS17/1.3, accessed March 2019

Retirement Income Advice Assessment Tool
RIAAT

RETIREMENT INCOME ADVICE ASSESSMENT TOOL

		Reviewer	QA
7	Has the firm obtained the necessary information regarding the ceding scheme(s)?		

Number of products switched out of:	

Product details	Product 1	Product 2	Product 3	Product 4	Product 5	Page Ref
Product type switched out of						
Product owner						
Provider name switched away from						
Is this the client's current workplace scheme?						
Fund value at date of advice						
Transfer/surrender value at date of advice						
Ongoing costs - Total (%)						
One off switch/exit costs (%)						
Does the product contain guarantees or other benefits?						
Additional comments on benefits/guarantees in ceding scheme.						
Product type switched in to						
Provider name switched to						
Page Ref:						

Source: FCA, Retirement Income Advice Assessment Tool, accessed March 2025.

Retirement Income Advice Assessment Tool RIAAT

RETIREMENT INCOME ADVICE ASSESSMENT TOOL

		Reviewer	QA
8	Has the firm obtained the necessary information regarding the proposed scheme(s) or solution(s)?		

Number of products recommended to withdraw from:	

Product details	Product 1	Product 2	Product 3	Product 4	Product 5	Page Ref
Product type						
Product owner						
Provider name						
Is this the client's current workplace scheme?						
Fund value at date of advice before						
Initial product cost (%)						
Ongoing product cost (%)						
Is product held on a platform?						
Name of platform						
Initial platform cost (%)						
Ongoing platform cost (%)						
Have the firm considered Investment Pathways as part of their advice?						
Has a DIM been recommended?						
Name of DIM						
Initial DIM cost (%)						
Ongoing DIM cost (%)						
Initial underlying investment cost (%)						
Ongoing underlying investment cost (%)						
Additional comments on costs						
Are NMPIs or non-standard investments recommended?						
Name of NMPI or non-standard investment.						
Name of provider						
Additional comments on NMPIs						
Page Ref:						

Source: FCA, Retirement Income Advice Assessment Tool, accessed March 2025.

Key Questions

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Is it appropriate to leave client assets in old-style pensions that cannot offer pensions freedoms options?

Or, to leave clients on legacy platforms where service standards are poor or where technology upgrades are likely to impact accuracy and timeliness?

Or, for some clients to miss out on your core centralised investment proposition (CIP) because it's not supported by the legacy product or platform they are sitting on?

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The advice process

Drivers for change

Regulator’s thoughts

Client objectives

Charges

Performance

Any loss of benefits

Switch to workplace pension

Financial strength

Death benefits

Future drawdown

Consolidation

Regulator’s thoughts

- **Client objectives**
- Charges
- Performance
- Any loss of benefits
- Switch to workplace pension
- Financial strength
- Death benefits
- Future drawdown
- Consolidation

The aim of establishing the client’s objectives is to understand their priorities, their plans including any relevant dates and amounts to achieve these, and what motivates them.

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Suitability template

1.5 Could the features/options/funds have been achieved more cost effectively by a different product?

1.6 Is the recommendation to switch to a more expensive scheme than the ceding scheme(s) without good reason?

Examples:

- Did the adviser identify a limited range of investments in the ceding scheme?
- Did the adviser check that the investments in the ceding scheme were performing poorly?
- Has the adviser analysed the with-profit funds in the ceding scheme?

Source: FCA website, FSA pension-switching advice suitability assessment template, accessed March 2025.

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Value for money

"When providing investment advice or portfolio management services that involve switching investments … firms shall collect the necessary information on the client's existing investments and the recommended new investments and shall undertake an analysis of the costs and benefits of the switch, such that they are reasonably able to demonstrate that the benefits of switching are greater than the costs."

Source: FCA website, COBS 9A.2 Assessing suitability: the obligations, accessed March 2025.

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Regulator's thoughts

- Client objectives
- **Charges**
- Performance
- Any loss of benefits
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Value for money

Questions to ask:

- What precisely does the receiving scheme offer that a less expensive alternative does not?
- What value does the customer get by paying more? Does that value at least make up for the additional charge?
- Are the receiving scheme's funds likely to be able to out-perform the cheaper scheme options by at least the amount of the additional charge? How has this been analysed?

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Types of charges to consider

- Annual management charge (AMC)
- Total expense ratio (TER)
- Reduction in yield (RIY)
- Loyalty bonus
- Large fund discount
- Policy fee
- Bid/offer spread

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Regulator’s thoughts

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- Charges
- **Performance**
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Compare over one, three and five years and ideally the last five discrete years

Best practice is to look at the term to retirement and use that term for past performance

Regulator would not expect you to keep a client in a poorly performing fund

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Regulator’s thoughts

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Guaranteed annuity rates

With profits

Protected tax-free cash

Regulator's thoughts

- Client objectives
- Charges
- Performance
- Any loss of benefits
- **Switch to workplace pension**
- Financial strength
- Death benefits
- Future drawdown
- Consolidation

	Ceding scheme	Workplace scheme	New scheme
AMC			
RIY			
TER			
Large fund rebate			
Loyalty bonuses			
Policy fees			
Past performance			
Financial strength			

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Ratings companies to help compare

- AKG
- Fitch
- Moody's
- Standard & Poor's

Consider the financial strength of the with profits fund

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Legacy products

Passing on death benefits

Pension freedom functionality

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Large fund rebate

Each plan on its own merits

Convenience

Opportunities

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PROD & Consumer Duty	Dormant pots	Dormant clients
Market volatility	Reviewing retirement plans	Poor investment performance
Poor service from provider	Wake-up packs from age 50	Mortgage ending

Learning outcomes

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By the end of this session, you will be able to:

- Document your advice process in line with the requirements of the regulator
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Thank you

To find out more:

adviser.royallondon.com