Retirement Income Advice Review

30 May 2024
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Learning objectives

- To list the regulator's main concerns with retirement income advice.
- Identify good and poor practice associated with retirement income advice.
- Outline best practice for income drawdown reviews.

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Research methodology

- Data Survey – 977 advice firms
- Desk based review – 24 advice firms
- 100 advice files


FINANCIAL CONDUCT AUTHORITY

Thematic Review
TR24/1

Retirement income advice thematic review

March 2024

Areas of concern

Areas of concern

- Income withdrawal strategy / methodology
- Risk profiling
- Advice suitability
- Control frameworks
- Periodic review of suitability

Income withdrawal strategy / methodology

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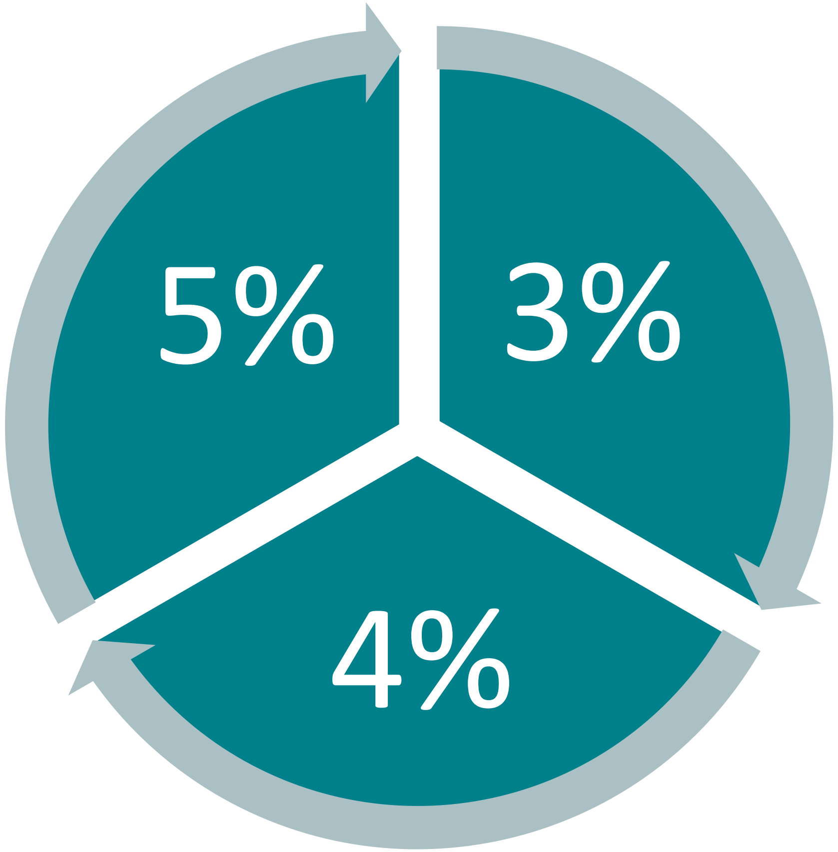
Use of withdrawal guide rates



276 out of 962 advisers stated they had a standard rate of withdrawal:

- 45 firms used 3%
- 199 firms used 4%
- 32 firms used 5%

810 firms stated they used some form of cash flow modelling (CFM).

111 firms stated they did not use CFM or have a standard rate.

Good practice

Good practice

One firm showed that recommended solutions were clearly linked to objectives, risk profile, tax efficiency and sustainability. The firm had a detailed CRP which set clear parameters for advisers, while allowing some flexibility dependent on customer needs. A robust approach was taken on sustainable income, whereby both stochastic and deterministic cashflow planning was used to help provide sustainable income recommendations.

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

Use of Cash flow modelling (CFM)

- Capacity for loss
- Underlying assumptions
- Stochastic vs Deterministic

Good practice

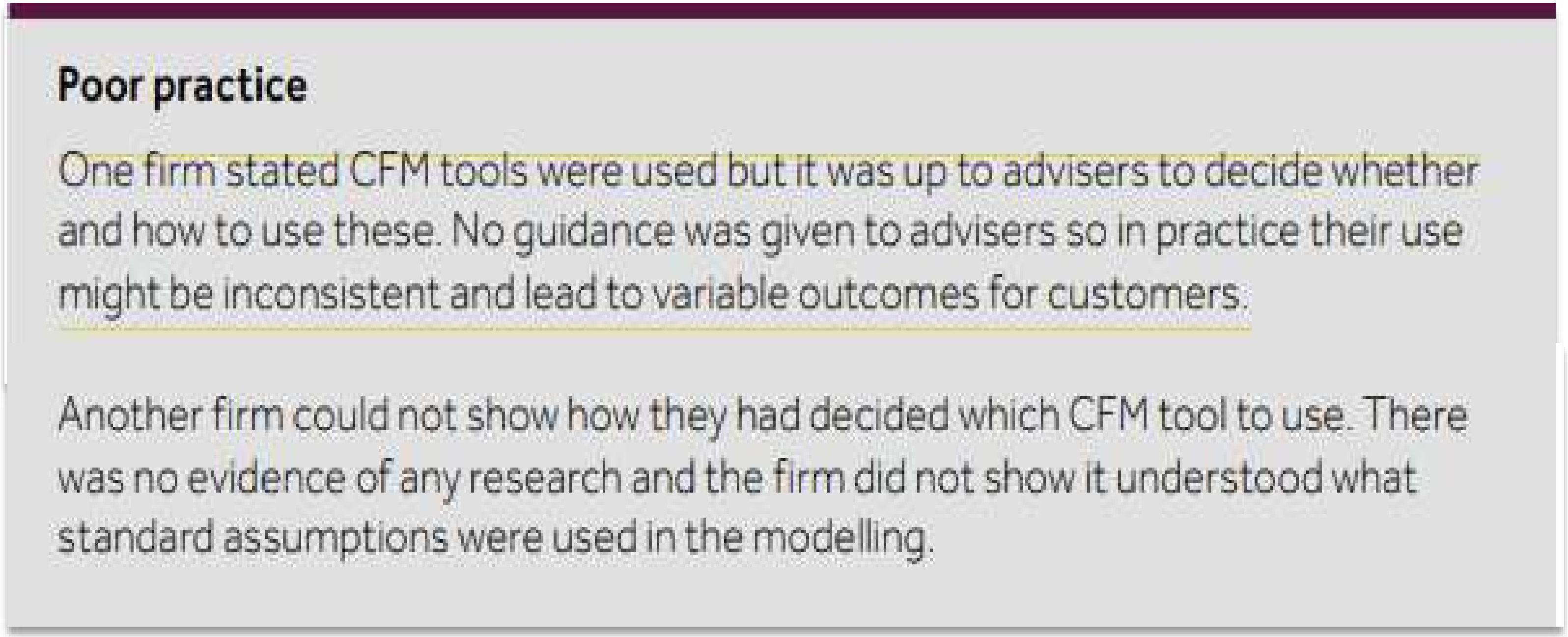
Good practice

One principal firm had recorded the various CFM tools that could be used by its advisers and appointed representatives (ARs). It highlighted the key features of each so they could decide which was most appropriate. The firm set out a clear expectation that CFM or a sustainability tool should be used for all investment related retirement advice. It also gave guidance on how to demonstrate the outputs in a clear way to customers. While the firm did not mandate the assumptions ARs should use, it issued guidance and default assumptions to use.

Another firm showed it stress tested all decumulation plans. It used a range of scenarios, including significant market falls at inception to reflect sequencing risk and the impact of loss of a partner's income where there was significant reliance on this.

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

Poor practice


Poor practice

One firm stated CFM tools were used but it was up to advisers to decide whether and how to use these. No guidance was given to advisers so in practice their use might be inconsistent and lead to variable outcomes for customers.

Another firm could not show how they had decided which CFM tool to use. There was no evidence of any research and the firm did not show it understood what standard assumptions were used in the modelling.

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

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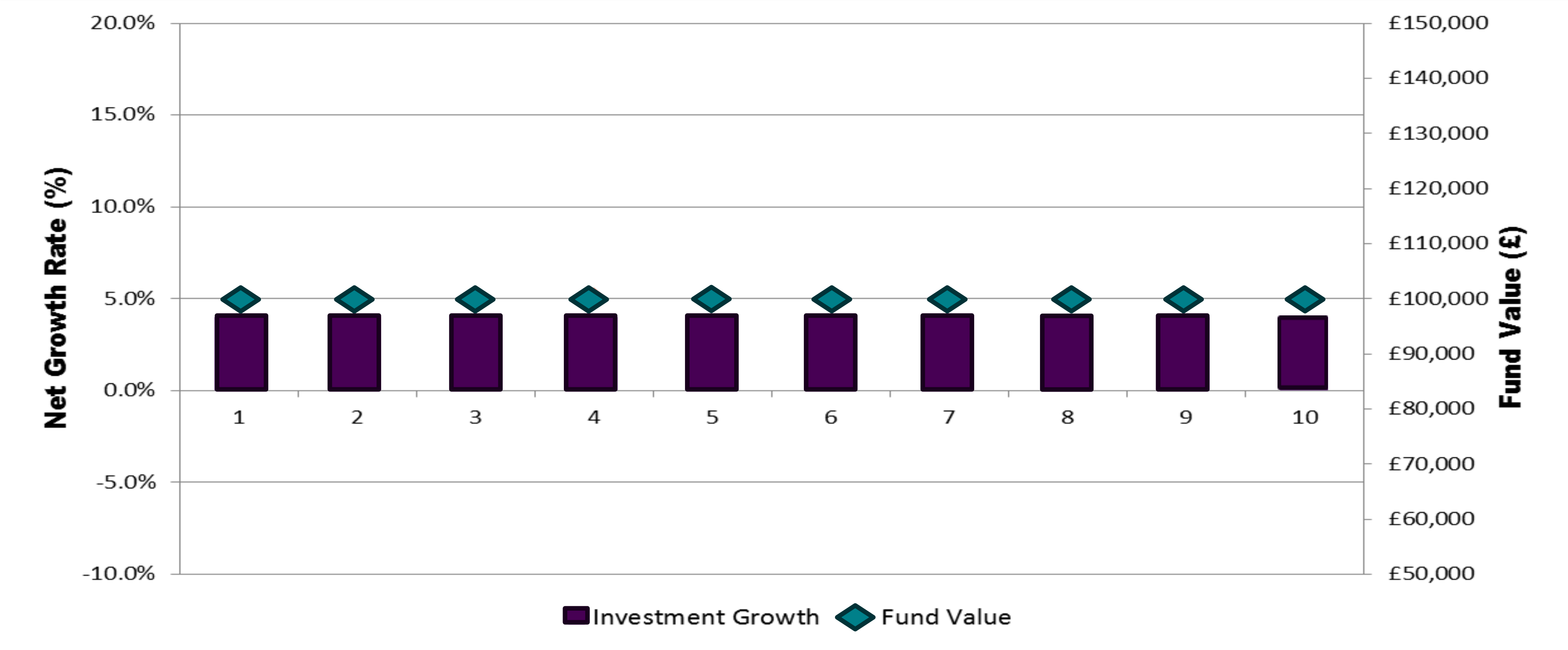
Centralised Retirement Propositions (CRPs)

- CRP vs CIP
- Accumulation vs Decumulation
- Consistency

Income Sustainability and Sequencing Risk

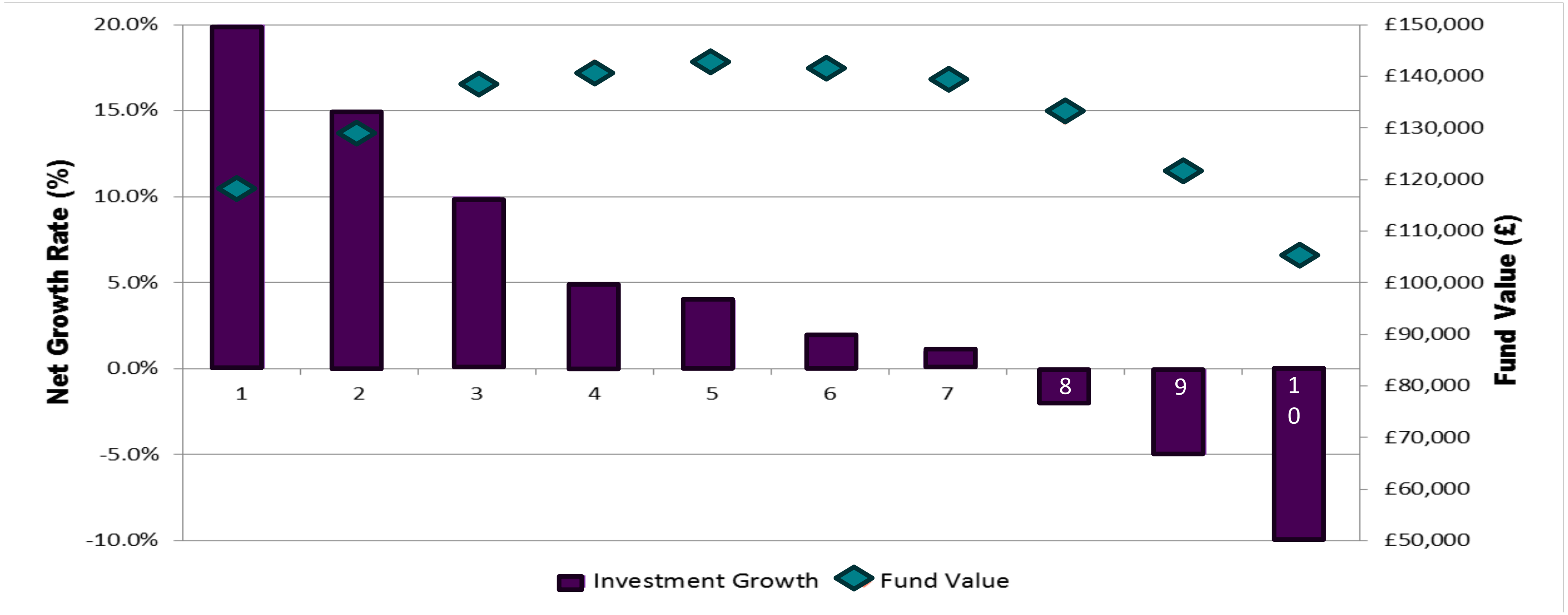
Sequence risk / volatility drag: Flat returns



Scenario	4% Flat Return
Fund Value (10 Years on)	£100,000

Source: Royal London, Assumes £4k withdrawal, from £100k pot

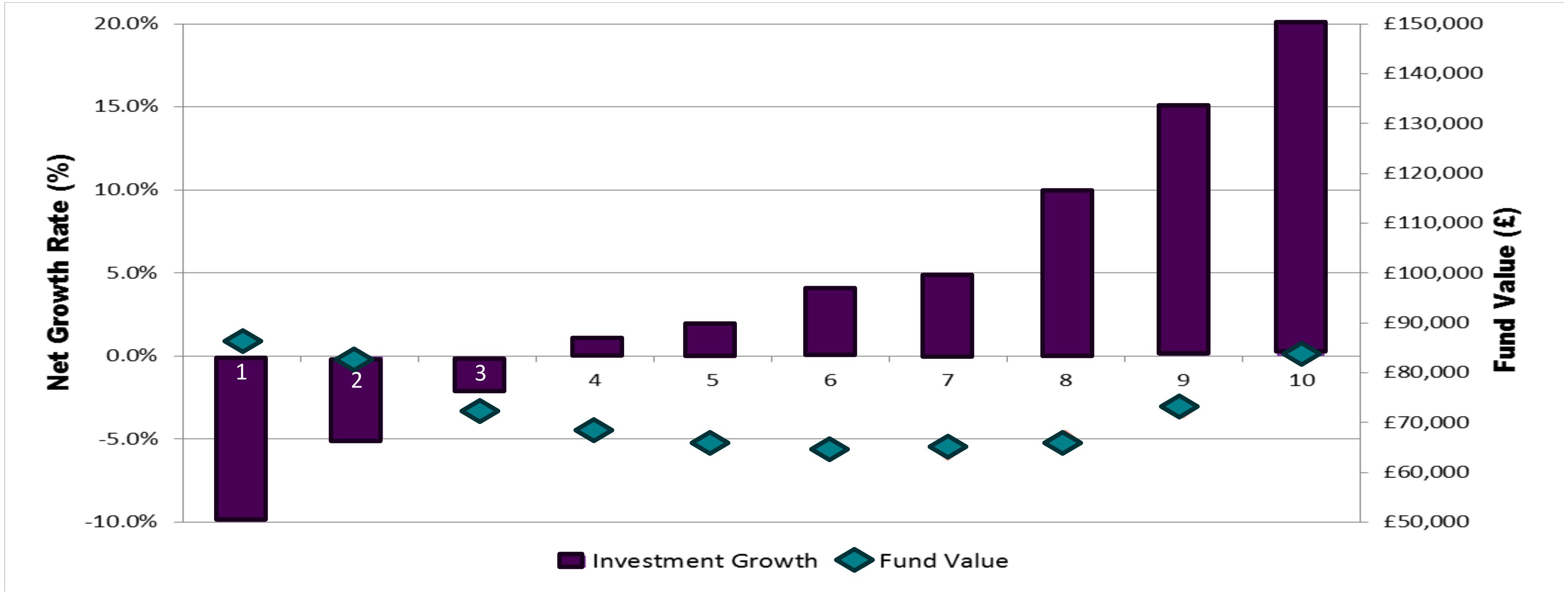
Sequence risk / volatility drag: Initial positive returns



Scenario	4% Flat Return	Initial Positive Returns
Fund Value (10 Years on)	£100,000	£105,601

Source: Royal London, Assumes £4k withdrawal, from £100k pot.

Sequence risk / volatility drag: Initial negative returns



Scenario	4% Flat Return	Initial Positive Returns	Initial Negative Returns
Fund Value (10 Years on)	£100,000	£105,601	£83,043

All scenarios return 4% on average, but can provide significantly different outcomes.

Source: Royal London, Assumes £4k withdrawal, from £100k pot.

Income sustainability heatmap

		Nominal Income %								
		3	3.5	4	4.5	5	5.5	6	6.5	7
Term (Years)	15	100%	100%	100%	100%	100%	100%	100%	98%	96%
	20	100%	100%	100%	100%	99%	97%	93%	82%	66%
	25	100%	100%	100%	98%	96%	86%	71%	56%	39%
	30	100%	100%	98%	95%	84%	70%	54%	38%	24%
	35	100%	98%	95%	86%	73%	58%	40%	27%	17%

Table indicates the % of the time the client might achieve this level of income or higher.

Highly sustainable	85% - 100%
Quite sustainable	75% - 84%
Barely sustainable	50% - 74%
Not sustainable	0 - 49%

Source: Royal London. For illustrative purposes. Income sustainability heatmap for GRIP3, net of 1% annual charge, as at Quarter 3 2023.

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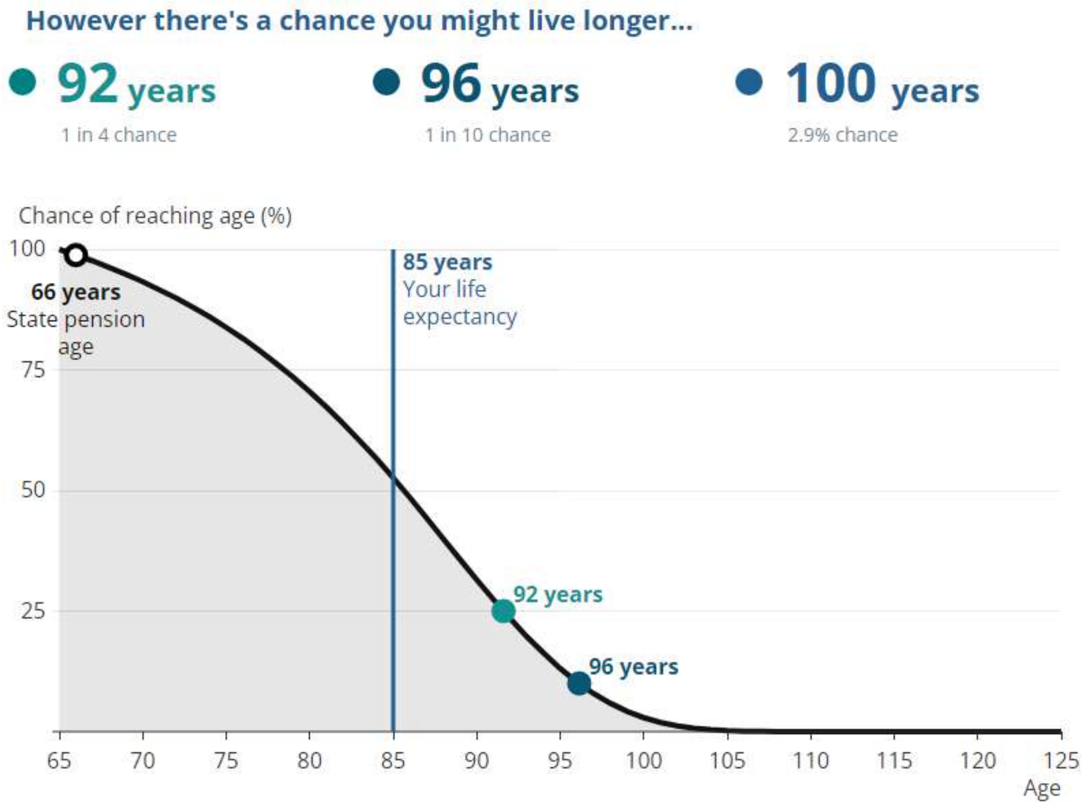
Income drawdown longevity risk

Life expectancy of a male age 65 today is 85.

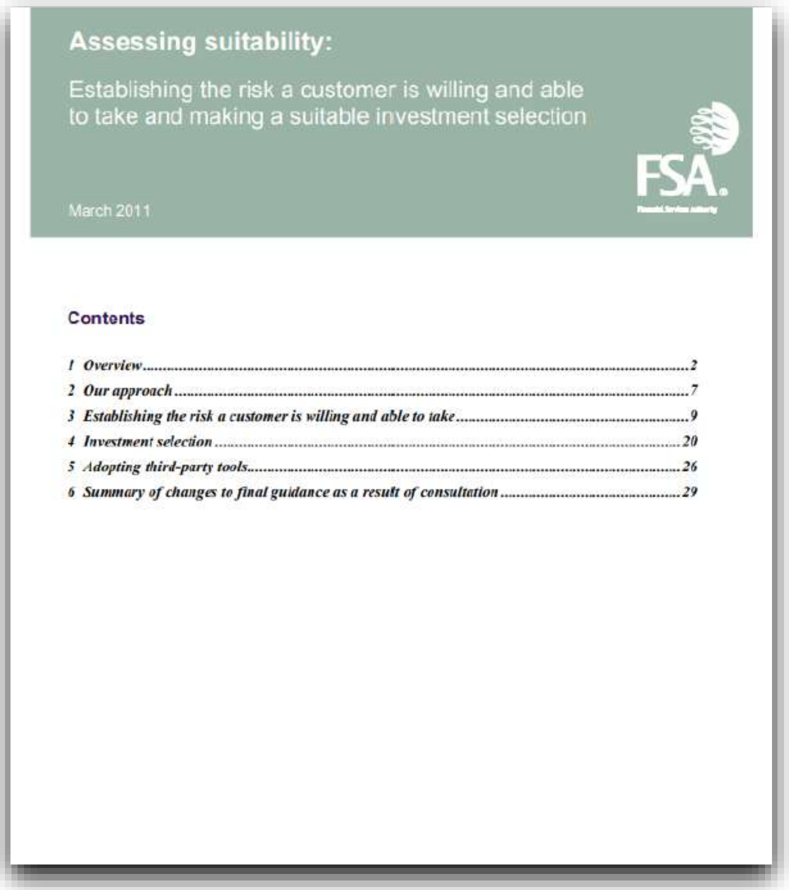


Source - Life expectancy calculator - Office for National Statistics (ons.gov.uk) May 2024

Risk profiling

Risk profiling

- Attitude to risk – Subjective
- Capacity for loss – Objective
- Both important
- Accumulation / decumulation
- Finalised guidance



Assessing suitability:

Establishing the risk a customer is willing and able to take and making a suitable investment selection

March 2011

FSA.

Contents

Risk profiling

- 221 out of 970 firms had a different process for assessing ATR in decumulation (as opposed to accumulation).

- 293 out of 960 firms had a separate process for assessing CFL which was distinct from the ATR assessment.

Risk profiling

Good practice

One small firm used a software tool to assess ATR and CFL. The firm recognised the questions were designed for accumulation so supplemented this with a questionnaire and discussion focused on retirement objectives and income needs, including preferences for this to be secure.

One firm asked an external provider to complete a formal review of its ATR questionnaire using a control group of several thousand consumers. The firm also completed quarterly checks to ensure CFL limits were not breached.

Poor practice

One firm had a 3-step process for risk profiling, risk tolerance, risk capacity and knowledge and experience. Each stage was based around a discussion with the adviser and there were no standard questions to guide the discussion. There is a risk that this approach could lead to inconsistent outcomes between different advisers of the firm.

Advice suitability

Areas of concern

- Investment risk not aligning with client's risk profile.
- Unnecessary or excessive costs or charges.
- Recommended product not meeting objectives.
- Loss of safeguarded benefits or valued features.

Advice suitability

Review results of the 67 files showed:

- 45 files (67%) were assessed as suitable
- 7 files (11%) where we had concerns about suitability
- 15 files (22%) had (MIGs) and could not be fully assessed as firms had not collected the necessary information

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

Unnecessary charging

- 21 of 24 firms received positive feedback.

- Transparent / easy to understand.

- Broadly align with work involved in delivering the level of service.

Unnecessary charging

- Lack of transparency.
- Unclear how charges set.
- Not accounting for differing needs of customers.
- Potential for poor value.

Unnecessary or excessive charging

Poor practice

The key charges document for 1 firm included a range of charges indicating that charges would be calculated based on the scale and complexity of the advice needed. However, it was not possible to determine from this how charges would be calculated in practice. When asked to clarify this, the firm was unable to do so.

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

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Recommended product not meeting objectives

- Maintaining independence.
- Target market groups.
- Differing needs in decumulation.

Recommended product not meeting objectives

For advice to be considered independent, firms should be able to show they have a diverse range of products to meet customers’ needs.

The long-term nature and complexity of retirement income products make fair charges and continued value over the life of a product important factors.

Where firms hold themselves out as acting independently and use a single platform service, they must also ensure this does not conflict with the requirement to show they have a sufficiently diverse range of products and providers.

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

Recommended product not meeting objectives

- Maintaining independence.
- Target market groups.
- Differing needs in decumulation.

Advice suitability

- Potential vulnerability was not identified, recorded or explored even where information on file suggested vulnerability may have been present.

- Knowledge and experience of investments and understanding of risk was either recorded at a high level, inconsistently or not supported by the information on file.

- Expenditure analysis was not recorded or completed, so it was not clear what the minimum income need was or what proportion of this was for essential (nondiscretionary) expend.

Advice suitability

		Reviewer	QA
5	Has the firm obtained the necessary information regarding the client's estimated expenditure throughout retirement?		

Has the adviser captured detail on the client's expenditure plans in retirement?	Yes

	Current regular expenditure	Page Ref		Retirement regular expenditure	Page Ref
Captured monthly or annually?	Monthly		Captured monthly or annually?	Monthly	
Basic cost of living (p.m)			Basic cost of living (p.m)		
Lifestyle expenditure (p.m)			Lifestyle expenditure (p.m)		
TOTAL non-discretionary expenditure (p.m)			**TOTAL non-discretionary expenditure (p.m)**		
Discretionary / savings (p.m)			Discretionary / savings (p.m)		
Basic cost of living (p.a)			Basic cost of living (p.a)		
Lifestyle expenditure (p.a)			Lifestyle expenditure (p.a)		
TOTAL non-discretionary expenditure (p.a)			**TOTAL non-discretionary expenditure (p.a)**		
Discretionary / savings (p.a)			Discretionary / savings (p.a)		

Additional comments	

Advice suitability

- Information about wider financial circumstances, for example, other pension provision and the state pension was missing.

- Income, including any lump sum capital needs were not quantified or the timeframe for which income was required was not stated.

- Future lifestyle changes were not explored or recorded, for example, when a partner would retire/receive a pension or how objectives or income needs were likely to change.

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Advice suitability

		Reviewer	QA
6	Has the firm obtained the necessary information regarding the client's financial situation?		

Current income (client)		**Page Ref**	**Current income (spouse/partner)**		**Page Ref**
Salary (p.a)			Salary (p.a)		
Pensions/investment income (p.a.)			Pensions/investment income (p.a.)		
Other income (p.a)			Other income (p.a)		
TOTAL	**£0.00**		TOTAL	**£0.00**	
Additional comments					

Income sources in retirement excluding this pension (client)		**Page Ref**	**Income sources in retirement (spouse/partner)**		**Page Ref**
Forecast state pension (p.a)			Forecast state pension (p.a)		
State pension date			State pension date		
State pension forecast or inferred?			State pension forecast or inferred?		
Other secured gross pension income (p.a)			Other secured gross pension income (p.a)		
TOTAL	**£0.00**		TOTAL	**£0.00**	
Additional comments					

Gross income from non-pension assets (p.a)			Gross income from non-pension assets (p.a)		
Gross income from state benefits (p.a)			Gross income from state benefits (p.a)		
Additional comments					

Other assets			**Other assets (spouse/partner)**		
Money purchase pensions (TV)			Money purchase pensions (TV)		
Investments (FV)			Investments (FV)		
Cash assets			Cash assets		
Property (ex main residence)			Property (ex main residence)		
Other assets			Other assets		
Additional comments					

Liabilities		
Outstanding mortgage		
Date of final payment (client age)		
Other secured debt		
Unsecured debts		
Will this pension be used to repay any of this debt?		
Additional comments		

Source: FCA – RIAAT – March 2024

Advice suitability

- Information about wider financial circumstances, for example, other pension provision and the state pension was missing.

- Income, including any lump sum capital needs were not quantified or the timeframe for which income was required was not stated.

- Future lifestyle changes were not explored or recorded, for example, when a partner would retire/receive a pension or how objectives or income needs were likely to change.

Advice suitability

- It was unclear whether information relating to the risk of capital erosion, the potential for annuity rates to be worse in future, or that income levels might not be sustainable had been disclosed.

Advice suitability

Poor practice

The firm recommended a customer switch 3 with-profit plans into drawdown. All 3 plans had guaranteed growth rates (GGRs) which meant they would have continued to grow at a set rate each year if held until the selected retirement date with the original scheme. The plans were also liable to incur market value adjustment (MVA) penalties through the switch.

Only 1 of the 3 plans needed to be switched to achieve the customer's stated income objectives. Leaving 2 plans with the existing scheme meant that no MVA would have been incurred on these and allowed the customer to benefit from the minimum guaranteed returns of the GGR feature. The file also showed 2 ATR assessments were completed, one of which showed a conservative ATR and the other showed a balanced ATR, which was used as the basis for advice. There was no record explaining the change.

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

Control framework

Areas of concern

- Recommended solutions not recorded.
- Ceding scheme missing.
- Underlying guarantees missing.
- Underlying safeguarded benefits missing.
- Initial or ongoing advice fees missing.
- Unclear if QA checked.

RIAAT – Ceding scheme

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 – RIAAT – March 2024

RIAAT – Proposed new scheme(s)

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:						

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Source: FCA – RIAAT – March 2024

Periodic review of suitability

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Areas of concern

- Change of circumstance.
- Vulnerability.
- Disclosure.
- Tracking.

Periodic review of suitability

Good practice

One firm had an ongoing service process flow document describing what was expected of advisers during ongoing reviews. It also gave information to customers detailing what would be covered in ongoing reviews. Suitability reports also included an appendix showing this information.

Another firm had processes and controls to cover ongoing QA as well as the actual fulfilment of reviews. Adviser forums were in place to oversee any issues arising from fulfilment of the services provided. The firm's systems were able to identify and flag where reviews were missed and fed into key risk indicators used to measure performance and oversight of advisers.

Poor practice

One firm acknowledged that ongoing reviews could be missed but did not have a process to mitigate this or set out the action it would take to ensure customers were not paying for a service they did not receive.

Source: FCA – TR24/1 – Retirement income advice thematic review – March 2024

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Retirement income ongoing reviews

COBS 9.3.3 states:

When a firm is making a personal recommendation to a retail client about income withdrawals, … it should consider all the relevant circumstances including:

1. The *client*'s *investment* objectives, need for tax-free cash and state of health;
2. Current and future income requirements, existing pension assets and the relative importance of the plan, given the *client's* financial circumstances;
3. The *client's* attitude to risk, ensuring that any discrepancy is clearly explained between his or her attitude to an *income withdrawal* and other *investments*…

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Source: COBS 9.3.3

Building a robust review process

Reconfirm the original advice & plans put in place for the client

- How the plan aims to meet their needs and objectives

Update client financial details

- Assets and liabilities
- Income and expenditure
- Who’s dependent on income from this plan

Building a robust review process

Identify any changes to the client's personal circumstances and whether these require action.

- Changes in attitude to risk and / or capacity for loss
- Annuitise?
- Update beneficiaries
- Health
- Altering regular / ad hoc withdrawals
- Emergency funds
- New sources of income – DB, state pension etc
- Inheritances

Building a robust review process

Review of investment performance

- Income sustainability / sequencing risk.
- Charges.
- Impact of change in attitude to risk or capacity for loss.
- Would the client benefit from transferring to a new provider.

Identify any recent or imminent legislation changes which may impact the client

- Investment pathways.
- PROD.
- Consumer duty.
- Retirement income advice review.

Building a robust review process

Agree and implement any changes

- Clearly explaining the roles and expectation of both the client and the adviser / firm.

Document outcomes

- Lasting record.
- Evidence / Client signature?

Schedule next review

- Reconfirm ongoing frequency.
- Major review with minor reviews in interim?

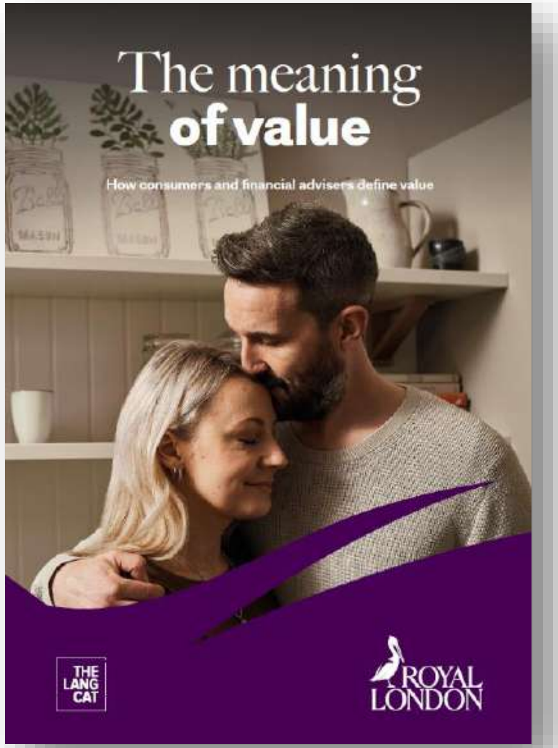
‘The meaning of value’

Research report

We know delivering value to your clients is important to you. And now of course, Consumer Duty requires all firms to ensure they deliver fair value and can evidence this.

We wanted to understand more about what consumers value. What’s important to them, and what things do they consider when deciding whether something is, or isn’t of value?

This is what our ‘The meaning of value’ research report is all about.



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Learning objectives

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May 2024