TR24/1 : Retirement Income Advice

March 2024

Analysis Series

INTRODUCTION

Thematic Review TR24/1 is large and useful guidance, not only on retirement income but also on the general advice process itself, it provides guidance on a number of key areas such as vulnerability, product governance and charging.

The review document is over 1700 words. This Analysis Series document is condensed to just over 8,700 without losing intent or direction. Door policy recommend that you read the full Thematic Review in conjunction with this abbreviated version.

TR24/1 is an important document and part of a collection of publications which inform the development of several key areas within the advice process. These are the consultancy areas that Open Door Policy can provide to advisory firms and support services.

- Value and Charging Proposition (VCP)
- Centralised Investment and Retirement Proposition (CIRP)
- Consumer Duty Proposition (CDP)

If you would like to explore the consultancy service we offer to firms, visit our website and email.

KEY TAKEAWAYS

Control and record keeping

- To show suitability, firms must keep orderly records of their business, including their services and transactions.
- Firms should not charge customers for services that are not delivered.
- The Regulator expects firms to track and monitor when reviews are due and identify any which are missed.
- Firms must show they have robust systems and controls and consider appropriate information including a comprehensive advice register.
- Firms are required to establish and maintain systems and controls as appropriate to their business.
- Firms should ensure any service providers they use are competent, and tools are fit for purpose.
- There are clear requirements and expectations to ensure firm employees have the relevant knowledge, skills and expertise, having effective recruitment, training and oversight arrangements in place to help deliver good outcomes.
- Firms are more likely to show suitable advice where files are complete and clearly record the advice.
- Robust QA can help assess whether advice meets consistent standards, is suitable and that information provided to customers is clear, fair and not misleading.

Know your client

- Firms must collate the necessary information and maintain records. Without doing so, firms risk giving unsuitable advice.
- The quality of findings and know your customer is essential to the delivery of good outcomes.
- Fact finding should be complete, with no gaps, inconsistencies or missing relevant information.

Vulnerability

- Firms must ensure that vulnerable customers are treated fairly.
- Failure to review decumulation factors and to put in place systems and controls risks vulnerable customers not being treated fairly.

Centralised Retirement Proposition (CRP)

- A CRP designed to meet the customer needs, with oversight and training is likely to lead to consistently better outcomes.
- Where there were deficiencies either relating to missing documents or gaps in fact finding, firms were also more likely to have weaknesses in their CRP.
- Firms are required to ensure there is no bias in the presentation of products.
- Firms should show they have considered the features and services of platforms and they reflect the needs of decumulation customers.
- When recommending drawdown, firms should also consider investment pathways.
- Firms are required to take steps to identify, prevent and manage conflicts of interests.
- There are requirements for distributor firms under the products and services outcome, firms need to understand:
    - the product or service
    - the target market
    - the intended distribution strategy
    - the need to ensure the product or service is distributed in line with the needs, characteristics and objectives of the target market

Sustainable income

- The lack of use of CFM or a withdrawal guides means a risk of making poor decisions.
- The use of a guide rate is likely to be helpful for customers, especially where CFM tools are not used.
- It is unlikely that using the same standard rate for customers with significant age differences would lead to outcomes that meet their needs without at least testing outputs with the aid of CFM.
- CFM has a significant role to play to illustrate sustainable income, taking into account customer circumstances and the size of pension savings.
- Where firms use CFM tools, they should ensure these are appropriate and reviewed regularly.
- Firms should consider whether the assumptions used in their CFM are still appropriate and reasonable.

Risk management

- When moving from accumulation to decumulation it is likely that the ATR / CFL will change and should be reassessed.
- If firms do not carry out adequate risk profiling, customers may be invested in solutions not aligned to their profile or tolerance level and could incur financial loss.
- Firms are able to manage risks better if they have appropriate systems and accurate MI.
- Where risk profiling is incomplete or out of date, there is a higher chance of unsuitable advice.
- Customers may be invested in solutions not aligned to their risk profile or tolerance level and could incur financial loss.
- Firms are required to ensure recommendations meet objectives and customers have the necessary experience and knowledge to understand risk.

The Consumer Duty

- Manufacturers must ensure its retirement income advice services provide fair value for retail customers.
- Distributors are subject to rules on price and value. Firms must not distribute a product or service unless the distribution arrangements are consistent with providing fair value.
- Firms must understand the value assessment of the manufacturer and consider whether other charges added would result in ceasing to offer fair value.
- Firms must ensure communications are likely to be understood, and test and monitor communications to identify whether they are supporting good outcomes.
- Firms should ensure support is provided at the right time and is appropriate for deciding how to take decumulation benefits.

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CHAPTER 1

Introduction

Moving from accumulation to decumulation is important and consumers now have more flexibility, exposing investments to mortality risk, as opposed to securing a guarantees. Decisions are more complex with the potential for more risk.

The harm caused by poor advice may have a particularly detrimental impact on consumers. This review helps drive up standards in advice, for consumers to:

- invest with confidence.
- make good investment decisions.
- understand the risks and protections.
- access investments that suit their circumstances.
- get the support they need.

Key findings

The findings are drawn from:

- a representative sample of 977 firms who responded to a data survey.
- a desk-based review of advice models files of a nonrepresentative sample of 24 firms.

Review of advice models key findings:

- Adapting to the post-freedoms landscape with
  - detailed processes.
  - training on decumulation .
  - the use of a range of tools.
- Advice and services delivered clearly, designed to meet the needs of decumulation.
- Taking account decumulation needs.
- Not showing consideration for the needs of customers.
- Not setting out the advice model to lead to good and consistent outcomes .
- Not providing the right information to support customers to make informed decisions.

There were considerable differences in advice file record keeping.

- 10% were missing key documents, so could not be assessed.
- 67% were found to be suitable.
- 11% with concerns about suitability.
- 22% had material information gaps (MIGs), so they could not be fully assessed.

Unsuitable retirement income advice could result in significant harm, resulting in:

- a reduction in income and/or their funds running out.
- potential higher charges.
- investing in complex solutions which are not understood or not aligned with risk profiling.

Firms must ensure that vulnerable customers are treated fairly. Findings show that implementing vulnerable customer processes was not in an effective or consistent manner in several areas.

Areas for improvement

Income withdrawal strategy/methodology

- Firms generally use cashflow modelling (CFM) or a specific percentage withdrawal 'guide' rate to show sustainable income.
- The withdrawal rate used varied, with firms referring to industry research as a standard basis.
- Not all were considering income sustainability.
- Many were not using CFM or not in a consistent or appropriate manner.

The lack of use of CFM or a withdrawal guides means a risk of making poor decisions.

The FCA expects firms:

- To consider current and future income needs in retirement.
- To adopt a reasonable approach tailored to circumstances and objectives.
- To illustrate the longevity of income in a variety of scenarios.
- To be aware of expectations on use of CFM in retirement advice (e.g. DB pension transfers).
- These should
    - be in real terms.
    - ensure tax bands and limits are based on reasonable assumptions.
    - take into account all relevant tax charges.
    - include stress-testing scenarios.

Risk profiling

- Firms should assess capacity for loss (CFL) and attitude to risk (ATR) consistently.
- When moving from accumulation to decumulation it is likely that the ATR and CFL will change, needing to be reassessed.

Advice suitability

Firms are required gather necessary customer information to assess suitability before making recommendations. Fact finding should be:

- complete.
- with no gaps.
- no inconsistencies.
- not missing relevant information.

The FCA had some particular concerns:

- The loss of guarantees and features.
- Penalties incurred.
- Unnecessary charges or tax.
- Customers not given information about relevant options.

Some files showed a failing to get necessary information, identified by:

- Vulnerability not identified, recorded or explored even where information 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 file information.
- Expenditure analysis not recorded or completed so it was not clear what minimum income needs were or what proportion was for essential expenditure.
- Information about wider financial circumstances (e.g. other pension provision and the state pension) missing.
- Income and lump sum capital needs not quantified.
- The timeframe for which income was required was not stated.
- Future lifestyle changes not explored or recorded, (e.g. a partner retiring/receiving a pension or how objectives or income needs could change.
- Unclear whether the following had been disclosed:
  - information relating to the risk of capital erosion.
  - the potential for annuity rates to be worse in future.
  - income levels might not be sustainable .

Firms must collate the necessary information and maintain records about:

- fact finding.
- Recommendations.
- communications and disclosures.
- investment knowledge and experience.
- understanding of investment risk.

Without doing so, firms risk giving unsuitable advice and recommending solutions that do not align with income needs. To show suitability, firms must keep orderly records of their business, including their services and transactions. This enables the Regulator to ascertain a firm’s compliance.

Periodic review of suitability

- For ongoing advice, firms should clearly confirm:
    - the details of the ongoing service
    - its associated charges
    - how customers can cancel the service and stop payment
- Firms should not charge customers for services that are not delivered.
- Firms are expected to track and monitor when reviews are due and identify any which are missed.

The Regulator expects firms to track and monitor when reviews are due and identify any which are missed. For customers in decumulation there is a higher likelihood for characteristics of vulnerability so it is important that firms have a plan to ensure services are proactively delivered.

Control framework

- Firms must establish and maintain appropriate systems and controls over their business including providing management with information to identify, measure, manage and control risks.
- Some found it difficult to provide information from the data survey, because it was not centrally recorded or could only be provided through manual extraction from files.
- A number had difficulty providing fully completed advice registers.
- From registers received, inaccurate or inadequate MI was identified in over half.
- Some registers so inaccurate that the advice scenario did not match what was recorded.

Where concerns were identified:

- Recommended solutions were not recorded making it difficult to identify transactions that might pose higher risk.
- Ceding scheme arrangements not shown so the arrangement the customer had held before the retirement advice was unknown.
- Ceding scheme provider names were missing so it was not possible to identify plans with guarantees or safeguarded benefits.
- Where provider names were recorded, plan features such as underlying guarantees or safeguarded benefits were not noted.
- The type of advice, initial or ongoing, was not always recorded which made it difficult to select files according to the type of advice given.
- The level of initial and ongoing advice fees was not shown.
- Unclear whether files had been quality assurance (QA) checked.

Firms must show they have robust systems and controls and consider appropriate information including a comprehensive advice register.

Next steps

Actions for firms

Firms should refer to the questions in the data survey and take immediate steps to review whether they have appropriate MI and update their data collation processes and records accordingly.

The FCA :

- Have published the Retirement Income Advice Assessment Tool (RIAAT) to assess the suitability of advice.
- Issued an article on cashflow modelling.
- Issued a Dear CEO letter, drawing to senior managers' attention the expectation that firms must take action in response to report, and that there will be follow up supervisory activity.

Further supervisory work

Retirement income advice will remain an ongoing focus. The Regulator will:

- Follow up on the findings and with firms involved in the retirement income market.
- Carry out further supervisory work to explore the scale of the issues identified and tackle any harms.
- Take further action if firms do not address the areas of poor practice.
- Require firms to rectify instances where customers have not received the level of service expected, including the provision of potential redress.

CHAPTER 2

Key findings: Centralised Retirement Proposition (CRP)

- A CRP is a documented approach to help give advice in a consistent way.
- It helps guide advisers on some of the more complex aspects facing customers in retirement.
- Whether firms have a CRP, CIP or use some other approach, they are more likely to deliver consistent and suitable advice where they have advice models designed to meet customer needs.
- Appropriate processes, training and tools should be in place to support this.

Income withdrawal strategy/methodology – Objective: The firm uses a strategy that applies appropriate assumptions to meet the income needs of decumulation customers.

There are a variety of options, including:

- Annuities.
- flexi-access drawdown.
- Uncrystallised fund pension lump sum (UFPLS).
- small pots encashment.
- non-pension income from ISAs or other assets.
- lifetime lending.

When advising on income withdrawal, UFPLS and short-term annuities firms are expected to consider:

- current and future income requirements.
- existing pension assets.
- the relative importance of the plan, given financial circumstances.

To help determine sustainable withdrawal, several factors are important including

- whether natural income/yield or a specified withdrawal 'guide' rate is used.
- how short-term income needs are met.
- the timing of encashments, impacting on sustainability if withdrawals are made when investment fund values have dropped (sequencing risk).

Use of withdrawal guide rates

Firms use a range of different withdrawal guide rates, some have a standard rate (house view) and others use a CFM.

Out of 962 firms:

- 276 had a standard rate:
  - 45 used 3%
  - 199 used 4%
  - 32 used 5%
- 686 had no standard rate.
- 810 used some form of CFM.
- 111 did not use a CFM or standard rate.

The use of a guide rate is likely to be helpful for customers, especially where CFM tools are not used.

Firms should have a reasonable basis for choosing the withdrawal guide rate and take into account individual circumstances. It is unlikely that using the same standard rate for customers with significant age differences would lead to outcomes that meet their needs without at least testing outputs with the aid of CFM.

Out of the CRP sample:

- 24 used a range of strategies, most combined the use of a standard rate with CFM.
- Some did not use a withdrawal guide rate but relied on CFM.
- A very small number used neither a withdrawal guide rate or CFM, it was not clear how they estimated sustainable income withdrawal levels.

Good practice

- Solutions clearly linked to objectives, risk profile, tax efficiency and sustainability.
- Having a detailed CRP setting out set clear parameters while allowing flexibility dependent on customer needs.
- A robust approach taken on sustainable income, both stochastic and deterministic cashflow planning used to help provide recommendations.

Poor practice

- Not evidencing how different solutions would be used to meet retirement income or customer needs.
- No consistent approach for meeting short-term income needs, leaving it to the discretion of advisers and creating a risk of inconsistent or poor advice.
- Adopting a flexible customer-led approach, with no withdrawal guide rate or CFM.
- Income yield used depending on individual customer circumstances but no consideration of the impact of fluctuations in yield or an assessment showing the likely level of sustainable income.

Use of CFM

CFM has a significant role to play in helping to illustrate sustainable income drawndown, taking into account customer circumstances and the size of pension savings. It can also help establish their CFL.

There are 2 types of CFM approaches:

- Deterministic: models use assumptions which do not vary, like a future growth projection.
- Stochastic: models allow for variability and produce a range of possible outcomes based on a statistical model.

Whichever used, firms should set out why the actual outcomes will vary in practice. Firms should also ensure that the underlying assumptions or parameters are reasonable and reviewed regularly to ensure they remain appropriate.

There are no specific requirements for firms to use CFM.

Firms are required to establish and maintain systems and controls as appropriate to their business. Where firms use CFM tools, they should ensure these are appropriate and reviewed regularly.

Out of 956 firms:

- 401 used deterministic CFM.
- 409 used stochastic CFM.
- 146 did not use CFM.
- 634 reviewed the underlying assumptions annually.

Of the desk based reviews:

- 21 of the 24 (88%) used some type of CFM tool.
- 1 firm would use a tool in specific decumulation recommendations.
- Most firms had checks and research they had completed before deciding which tool to use .
- 5 firms did not do either.

Firms should consider whether the assumptions used in their CFM are still appropriate and reasonable.

Seven firms did not appear to have carried out any review.

The FCA would also expect firms:

- To clearly document the impact of fund withdrawals, predicted inflation and charges.
- Document the potential for sustaining adequate income in retirement.

Firms should also include stress-testing scenarios to assess more than one potential outcome for customers.

Good practice

- Recording the various CFM tools that could be used by its advisers and appointed representatives (ARs), highlighting the key features of each so they could decide which was most appropriate.
- Setting out a clear expectation that CFM or a sustainability tool should be used for all investment related retirement advice.
- Giving guidance on how to demonstrate the outputs in a clear way to customers.
- While not mandating the assumptions, issuing guidance and default assumptions.
- Showing stress testing in all decumulation plans, using a range of scenarios, including significant market falls at inception to reflect sequencing risk and the impact of loss of a partner's income.

Poor practice

- Stating CFM tools were used but it was up to advisers to decide whether and how to use them.
- No guidance given to advisers so in practice their use might be inconsistent and lead to variable outcomes.
- Unable to show how the decision was made on which CFM tool to use.
- No evidence of research and not able to show understanding on what standard assumptions were used in the modelling.

Risk profiling – Objective: The firm has a robust process to assess customers' ATR and CFL.

Investment-based income solutions expose consumers to ongoing investment risk. It is vital that solutions are properly aligned to risk. Robust risk profiling help make recommendations which consider risk appetite.

- ATR represents an individual's mindset or willingness to accept risk.
- CFL considers their ability to absorb losses.

Firms are required to obtain information to ensure that recommendations made are ones the customer is financially able to bear the risk of, and consistent with investment objectives.

In retirement, CFL determines the extent to which consumers could cope with a reduction or change to their income.

When moving from accumulation to decumulation it is likely that the ATR / CFL will change and should be reassessed.

Approaches to risk profiling (more than one may apply to a firm):

- 866 used a risk questionnaire.
- 472 used software.
- 339 used a visual or descriptive aid.
- 123 indicated that a discussion took place with customers.
- 221 of 970 had a different process for ATR in decumulation.
- 293 of 960 had a separate process for CFL which was distinct from the ATR assessment.

From the CRP reviews:

- The risk profiling approach showed no clear distinction between accumulation or decumulation.
- The language and questions were not specifically framed for customers in decumulation.
- Although example questionnaires were clear and unambiguous some were written with an accumulation focus.
- Customers could be inaccurately profiled and take on risk not in line with their circumstances.

Some firms had recognised accumulation risk profiling had limitations and supplemented this with a more detailed discussion about retirement income needs and the need for secure income.

- Firms had a combined ATR and CFL approach, although 4 firms had separate processes.
- One of these firms used a questionnaire, whereas 2 firms used software.

FG11/5 states that assessing ATR and CFL separately avoids the risk of conflating these outputs.

The advice file reviews identified concerns about risk profiling. If firms do not carry out adequate risk profiling, customers may be invested in solutions not aligned to their profile or tolerance level and could incur financial loss.

Good practice

- Using a software tool to assess ATR and CFL.
- Recognising that questions were designed for accumulation so supplementing with a questionnaire and discussion focused on retirement and income needs, including preferences for this to be secure.
- Asking an external provider to complete a formal review of its ATR questionnaire using a control group of several thousand consumers.
- Completing quarterly checks to ensure CFL limits were not breached.

Poor practice

- A 3-step process for risk profiling, risk tolerance, risk capacity and knowledge and experience. Each stage based around a discussion with the adviser with no standard questions to guide the discussion. This approach could lead to inconsistent outcomes between different advisers.

Periodic review of suitability – Objective: The firm has a robust and effective process for providing ongoing advice and services to its customers.

With paid ongoing advice, it is important that firms:

- Set out clearly what services are included.
- How this is to be delivered.
- How frequently it is delivered.
- Have a plan to ensure services are proactively delivered as agreed.

There is a higher likelihood that decumulation customers have characteristics of vulnerability. Failure to review decumulation factors and to put in place systems and controls risks vulnerable customers not being treated fairly.

231 firms indicated that 6,108 out of 213,128 customers (2.9%) had paid for but did not receive an annual/ongoing review in 2022. Key reasons (more than one option may apply):

- 382 firms indicated customers declined/did not respond.
- 29 firms attributed this to firm error/oversight.
- 10 firms indicated this was due to employee resource.
- 157 firms noted that data was either not measured or not recorded centrally.

- FCA rules state that firms must not use an adviser charge unless the adviser charge is in respect of an ongoing service.
- The FCA do not expect customers to be charged for services that are not delivered.
- The FCA expects firms to track and monitor when review meetings are due and identify whether any are missed.

From the CRP reviews:

- Most firms had guidance or agreements in place describing their ongoing service.
- Some documentation did not describe how the firms identified they were delivering ongoing services and what controls were in place to meet commitments.
- Some did not set out clearly what services were included in an ongoing review so customers may not be receiving expected levels of service on a consistent basis.

Good practice

- A process flow document describing what was expected of advisers during reviews, giving information to customers on what would be covered. Suitability reports also included an appendix showing this information.
- Processes and controls to cover ongoing QA as well as the fulfilment of reviews.
- Adviser forums in place to oversee any issues arising from fulfilment of the services.
- Systems able to identify and flag where reviews were missed and fed into key risk indicators used for MI and oversight.

Poor practice

- Acknowledging that ongoing reviews could be missed but not having 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.

Control framework – Objective: The firm's systems and controls, and MI help ensure effective management and oversight of its decumulation business.

Firms are able to manage risks better if they have appropriate systems and accurate MI. There should be clear lines of responsibility, including committees where appropriate.

Firms are required to:

- Have robust governance arrangements in place.
- Have effective processes to identify, manage, monitor and report risks to their business.
- Establish, implement and maintain adequate procedures to ensure compliance with their regulatory obligations.

From the CRP reviews:

- 20 of the 24 firms (83%) had a governance structure that had clear reporting lines and designated individuals accountable.
- 4 firms did not clearly explain how oversight worked, with gaps in the documents or no organisational charts.
- 24 completed an advice register of their retirement income advised business in 2022 but some firms found it difficult to provide the requested data because information:
    - was not measured.
    - was not centrally recorded.
    - had to be collated from different sources/systems.
    - could only be provided through manual extraction from individual files which needed considerable time and effort to collate.

Good practice

- Recording in its Statement of Responsibilities where accountability for decumulation advice lay.
- Third-party relationships allocated an owner taking responsibility for oversight of the contract and risk assessments.
- KPIs maintained and monitored on external services, feeding into a risk governance board.

Poor practice

- Inaccuracies in two thirds of the files requested for one firm, despite having been QA checked. For example:
    - Receiving accumulation advice files instead of retirement income files
    - Advice that had not proceeded or had not been presented yet
    - Files that had not been QA checked but were recorded as such
    - Annuity advice that had been recorded as drawdown (and vice versa)

CHAPTER 3

Key findings: advice files

The FCA identified concerns in suitability, including:

- Investment risk not aligning with customer risk
- Unnecessary or excessive charges and penalties being incurred
- Recommended products not meeting objectives
- A loss of safeguarded benefits or valued features

Nearly a third of requested files requested had missing documents or significant gaps in information, observations showed that record keeping is inadequate for many firms.

A CRP designed to meet the customer needs, with oversight and training is likely to lead to consistently better outcomes. There was no clear correlation between the appropriateness of a CRP and suitability. However where there were deficiencies either relating to missing documents or gaps in fact finding, firms were also more likely to have weaknesses in their CRP.

Advice file review results

The FCA requested 100 advice files from the 24 firms:

- 21 were out of scope.
- 10 had missing documents (e.g. no fact find, suitability report or ceding scheme details)
- 67 files were assessed using the RIAAT and showed:
    - 45 (67%) were assessed as suitable.
    - 7 (11%) had concerns about suitability.
    - 15 files (22%) had MIGs and could not be fully assessed.

Information collection

The quality of finding and know your customer is essential to the delivery of good outcomes. Fact finding should be complete, with no gaps, inconsistencies or missing relevant information. Firms must get the necessary information to assess suitability before recommendation, including

- Knowledge and experience.
- Financial situation.
- Investment objectives.

Firms should clearly record:

- How investment knowledge and experience and understanding of investment risk have been established.
- The recognition that needs, including income, are likely to change during the period up to and after retirement.
- Expenditure analysis reflecting the likely changes so that any forecasts produced are reflective of this.

Disclosures

Disclosure is essential for customers to:

- understand enough about a retirement income product or service.
- know how it works.
- understand benefits, risks and costs.
- be able to assess a recommendation.

A high number of disclosure failings were found:

- In 22 files the Initial Disclosure Document (IDD) provided either shortly before advice was given or with the suitability report setting out the advice. The IDD sets out the products and solutions the firm provides and the charges the customer would be expected to pay.
- In 9 files information about investment funds had not been given to customers.
- In 11 files the firm did not explain the risk of capital erosion, the potential for annuity rates to be worse in future, or that income levels might not be sustainable.

Loss of guarantees or features

Poor practice

- A switch of 3 plans to income drawdown. 1 had a guaranteed annuity and 2 had Guaranteed Annuity Rates (GARs). The guaranteed annuity provided a minimum level of income at the age of 65. The GARs provided a guaranteed rate of income at any retirement age from 65 up to 75.

  The firm compared the income from the GAR and guaranteed annuity against a current annuity rate (CAR).

  Advice to switch was based on the CAR income being slightly higher, this may not have been in the customer's best interests. The firm did not show they had considered all possible scenarios. The CAR would be liable to fluctuate up or down in future in line with market changes. The GAR would not be affected by market rates but would increase based on the customer's age. Income available from the GAR would be higher in the future. The income available was age dependent, increasing each year retirement was deferred, up to age 75. So income taken at 66 would be higher than income at 65.

  Only 1 of the 3 plans needed to be switched to achieve income objectives. Retaining the other 2 would have provided the flexibility to take GARs in the future.

Poor practice

- Switching 3 with-profit plans into drawdown. All 3 had guaranteed growth rates (GGRs), they would continue to grow annually at a set rate if held until the selected retirement date. The plans were liable to incur market value adjustment (MVA) penalties through the switch.

  Only 1 of the plans needed to be switched to achieve income objectives. Leaving 2 plans meant that no MVA would have been incurred, allowing the customer to benefit from minimum guaranteed returns of the GGR feature.

  The file showed 2 ATR assessments, one showed a conservative ATR and the other a balanced ATR, which was used as the basis for advice. There was no record explaining the change.

Disclosure of tax

Poor practice

- Accessing an additional sum of money for a specific customer need, all income for the customer and their partner had been recorded. Discussions regarding tax referred to a 20% tax deduction but failed to make clear the lump sum would push the customer into the higher rate tax threshold.

Risk profiling: ATR and CFL

There were deficiencies with the way that ATR and CFL was assessed or recorded:

- 3 out of 67: ATR not up to date or was incomplete:
  - ATR had been assessed 6 years previously.
  - it was inconsistent with the stated objectives.
  - it had not been fully completed.
- 9 out of 67: CFL assessment was incomplete.
  - 5 cases: no completed CFL.
  - 4 cases: CFL inconsistent with customer circumstances.
- 6 out of 67: on knowledge and experience
  - 4 cases: not established.
  - 2 cases: inconsistent.

Where risk profiling is incomplete or out of date, there is a higher chance of unsuitable advice. Customers may be invested in solutions not aligned to their risk profile or tolerance level and could incur financial loss.

Poor practice

Showing income needs would increase significantly once ISA funds ran out. The advice highlighted the risk of money running out, however the CFM output stated there was a 95% chance the fund would last until 'average' life expectancy. It is unclear:

- Whether the customer understood what this meant.
- What the risks of running out of money earlier were.
- What the implications of the customer living longer than average life expectancy.

The CFL did not illustrate the impact of any reduction in income.

Consideration of annuity options

Poor practice

- Wanting to grow a pension to help with the cost of living and cover an income shortfall to state pension age. The requirement was for a sustainable income to supplement other income. The fact find had contradictory information in places, noting retirement would be at 67, although illustrations were to age 75.

- No evidenced alternatives had been explored before recommending drawdown. The suitability report made no reference to annuities, so the customer may not have made a fully informed decision. Not showing whether any benefits were means-tested and could be lost or reduced by drawing income from their pension.

Poor practice

- Several existing plans in place and wanting access to pension commencement lump sum (PCLS) only, some had a protected PCLS of 59%.

  It was not possible for the customer to take PCLS only from the ceding scheme unless the balance of the funds were used to purchase an annuity. To take advantage of the higher PCLS, it was recommended the customer access PCLS and purchase a lifetime annuity, plans that had no protected PCLS were switched to a SIPP.

  Projections showed there would likely have been a shortfall of approximately £5,000 per annum at retirement age. However, the annuity income was surplus to requirements and resulted in a higher taxable income. No consideration was given to using the funds to purchase an increasing/inflation linked annuity. This would have resulted in a lower level of initial income, (still being surplus to requirements but chargeable to less tax) and provided a greater level of income post-retirement when income need would be greater.

Higher charges incurred on switching

Poor practice

- Accessing pension funds to clear a mortgage and recommending to switch the existing drawdown and PPP to allow flexible access to pension benefits. The platform and fund charges were higher after switching. The main reasons for the switch were due to:

  - The existing provider not providing annuities.
  - The customer's desire for 'smoothing' of investment returns (through a with-profits fund).

  The customer was not looking for an annuity at the time and there was no record of showing how the projected growth and higher charges in the with-profits fund had been weighed up against the lower charges of the customer's existing plan.

CHAPTER 4

Other findings

Design and delivery of advice process

Nature and scope of advisory services – Objective: The firm's retirement income advice services are clearly defined and appropriate for its customers.

Firms are required to explain the nature of their advice services, including if they are independent or restricted. Firms may also provide transactional advice, (focused on a specific objective and may be a type of streamlined advice).

Holistic advice would look at all potential areas, including other non-pension savings assets, financial objectives and areas such as tax planning.

The survey indicated:

- 592 firms provided holistic advice to 80% or more of their customers.
- 725 firms indicated less than 10% of their customers received transactional advice.

84 out of 977 had a minimum fund value requirement for decumulation. Of these:

- 11 advised on total assets of £250,000 or above.
- 62 advised on asset value between £50,000 and £249,999.
- 11 advised on a minimum assets value of less than £50,000.

From the CRP reviews:

- Most were able to elaborate on the nature and scope of their services, including the type of customers and the type of advice available.
- Some had a policy to refer customers who sat outside their minimum requirements (upper and lower fund values) to an alternative firm.
- Over a third of firms did not show how they ensured their advice services remained appropriate on an ongoing basis.

Good practice

- Clearly set out service levels, showing what was included at each, and how the service was checked annually.
- Including examples of the additional support available and highlighted any limitations before advice was given.
- A clear recorded process to ensure customers who did not meet minimum fund values were referred to MoneyHelper, while high net worth customers were referred to another firm.

Poor practice

- Documentation showing service levels but not aligning with segmentation and fund values set out in the documents describing the services. Customers were at a high risk of receiving services that did not meet their needs.

Lifetime lending – Objective: Firms have appropriate controls in place to ensure lifetime lending recommendations are suitable for decumulation customers.

The review of lifetime mortgages found concerns with financial promotions and suitability of advice, including:

- Poor consideration of income and expenditure.
- Incentivising sales at the expense of good customer outcomes.

- 962 firms (21%) provided retirement income advice and had also advised on lifetime lending.
- 847 firms (88%) had sold 10 or less lifetime mortgages.
- 38 firms (4%) had sold 20 or more.

Generally, firms approached lifetime lending as a separate area of advice, only bringing this into consideration as a last resort.

Adviser charging model – Objective: The firm's adviser charging model is appropriate for its customers, transparent and communicated clearly.

Fair charges and continued value are important because charges can erode an investment and impact the amount and length of time that income could be drawn.

Firms are required to disclose their charging structure in writing and in good time before giving advice. When calculating cost of services, firms should consider the value of all charges that would be payable.

21 of 24 firms (88%):

- Set out charging structures transparently in a way customers could understand.
- It was clear how charges varied for initial versus ongoing, different fund values and the type of service provided.
- Several firms considered where charges might not represent fair value and would apply a cap or consider a reduction.
- Others would monitor service levels and fees on an ongoing basis and prompt customers where a lower service level and fee might be more appropriate.

For a small number of firms the charging structures were not clear:

- Not accounting for differing needs of customers.
- An element of discretion in how charges were set.

This could lead to inconsistent outcomes with some customers charged more than what might be considered reasonable.

A key consideration is whether a firm can continue to provide a service where funds reduce to a level no longer supporting a fee:

- One firm is considering a review of its charging structure to take account of fund depletion.
- Another indicated that it would likely continue to provide an ongoing service even where the fund was below the minimum requirement.

Good practice

- Introducing a 'decency cap' limiting the total fees payable for ongoing services.
- Providing clear examples and tables with a reckoner tool to help illustrate charges.
- Service fees reviewed annually to ensure customers only paid fees that were appropriate for the service levels received or required.

Poor practice

- A charges document included a range of charges indicating they would be calculated based on scale and complexity, but it was not possible to determine how charges would be calculated. When asked to clarify, the firm was unable to do so.

Platform selection – Objective: The firm's choice of investment platforms meets its customers' needs.

Firms are required to ensure there is no bias in the presentation of products. When acting independently and using a single platform, they must ensure this does not conflict with the requirement to show a sufficiently diverse range of products and providers.

Firms should show they have considered the features and services of platforms and they reflect the needs of decumulation customers.

- 843 out of 970 firms held customer assets on a platform.
- 127 did not.
- 754 selected platforms specifically to meet the needs of decumulation customers.
- Most used multiple platforms.
- 65 indicating they had 1 platform.
- 120 used 10 or more.
- 764 identified cost as one of the key considerations.
- Service levels were factors 656.
- Functionality of the platform were factors for 635.
- Range of investment choices was a key feature for 515.

From the CRP reviews:

- All 24 used more than 1 platform.
- Firms had clearly recorded when certain platforms would be considered.
- A small number had robust procedures for assessing whether platforms were appropriate for their customers, showing detailed due diligence with frequent monitoring and reviews to ensure platforms continued to meet the needs of customers.

Over a third of firms did not carry out regular reviews to ensure the platforms continued to be appropriate.

- 31 firms had their own platform, with 20 being white labelled.
- 5 of the 24 firms (21%) had their own or white labelled platform. Generally, these firms were cognisant of conflicts with 2 firms putting in controls to mitigate this.

There was no platform bias, although a small number relied primarily on 1 platform.

Good practice

- Reviewing platforms at least annually covering panel and off panel.
- External screening carried out by a specialist firm to produce a shortlist, which was considered by a working group.
- Annual report on panel platforms outlining:
  - due diligence.
  - why each platform was chosen.
  - benefits to customers .
  - the customer groups each platform would be suitable for.
- Thorough ongoing research into platforms while monitoring the rest of the market.

Poor practice

- Unable to provide evidence of its last platform review or explain how it continued to meet the needs of its customers.
- Acknowledging platforms did not fully meet the needs of its customers in decumulation but not taking any steps to address this.

Use of third-party tools/service providers – Objective: The firm completes effective due diligence and oversight on third-party service providers and tools.

Firms should ensure any service providers they use are competent, and tools are fit for purpose.

- Most firms use third-party tools or services..
- 46 out of 977 firms (5%) did not
- Specifically (more than one option might apply for each firm):
  - 842 use risk-profiling tools.
  - 817 use investment research tools.
  - 765 use CFM tools.
  - 596 use CFL tools.
  - 535 outsource compliance.

From the CRP reviews

- 12 of the 24 firms (50%) completed research and due diligence on the providers of tools or services. A small number completed robust checks on third parties with regular reviews, usually annually.
- Most had clear service agreements.
- A handful of firms could not provide a copy of any agreement, so the expectations were not clear. Some firms had relied on compliance consultants, external research or trade bodies if tools were appropriate but did not record the information used to guide their selection or why they considered any third parties were suitable for their business.

Good practice

- Having an overarching master agreement with all third-party providers covering the contractual terms, service levels and termination clauses
- Completing due diligence on new and existing providers on renewal.
- Considering how to transition away if needed, with a detailed exit plan.

Poor practice

- Not completing any due diligence and relying primarily on industry events and conferences to decide which tools or service providers to use.

Decumulation solutions/investment selection – Objective: The firm's investments, including any model portfolios, are appropriate and correctly aligned to customers' risk profiles.

Firms are required to ensure recommendations meet objectives and customers have the necessary experience and knowledge to understand risk. When recommending drawdown, firms should also consider investment pathways. Pathways were introduced following the Retirement Outcomes Review, primarily for non-advised customers accessing their pension savings but who were focused on withdrawing their tax-free cash and not engaging with investment decisions.

- 131 of 977 recommended an investment pathway for 3,557 customers.
- 282 of 941 investment portfolios were constructed specifically to meet the needs of decumulation customers.
- 8 stated they had 1 portfolio.
- 201 stated they had between 1 and 10 portfolios.

From the CRP review

- 16 of the 24 firms' (67%) range of investment solutions were aligned to customer objectives, income needs and risk profiles.
- Some had a CIP in place detailing investments used, objectives, returns and strategies. They also carried out regular reviews of funds/portfolios, including asset allocation.
- Some CRPs would only recommend secure income for risk averse customers.
- 95% of customers identified as risk averse were recommended annuities (excluding those accessing PCLS with no income).
- A small number showed drawdown was recommended for risk averse customers, while some were solely invested in cash.
- 6 of the 24 (25%) did not record how the investment funds met customer needs or reviewed whether investments remained appropriate.
- One had decided to change the investment strategy for all its funds, but no rationale was recorded as to how or why that decision was made.
- Another relied on risk profiling software for fund recommendations that matched the ATR but did not show that it had considered or reviewed the basis on which these would be suitable for its customers.

Good practice

- Working with providers, following specific criteria to ensure investments matched customer needs .
- Evaluating product performance using specific tools.
- Portfolios reviewed quarterly and annually, with records kept of meeting minutes.

Poor practice

- Relying exclusively on investment software to identify investment solutions.
- Not having a CRP, CIP or any other document recording the funds that might be appropriate.
- No consistent approach, advisers could select any fund that matched the ATR of the customer.
- No review in place assessing whether investment solutions continued to be appropriate.

Governance and oversight of retirement income advice

Training and competence (T&C) – Objective: The firm has a T&C scheme or other arrangement in place to ensure appropriate assessment and supervision of advisers.

There are clear requirements and expectations to ensure firm employees have the relevant knowledge, skills and expertise, having effective recruitment, training and oversight arrangements in place to help deliver good outcomes.

From the CRP reviews:

- All 24 firms had appropriate recruitment processes.
- Most firms had recorded the training and support.
- In an isolated example it was not clear what training could be expected.
- With sole traders or a small number of directors, some were unable to show what training or development they undertook to ensure they kept their own knowledge and skills up to date.
- 19 of the 24 firms (79%) included training on retirement income advice, some covering safeguarded benefits and GARs.
- A small number did not evidence how they ensured supervisors were trained and assessed for competence to oversee, coach and assess advisers.
- Most firms completed QA on a proportion of advice files on an ongoing basis, most checking 10%.

Firms are more likely to show suitable advice where files are complete and clearly record the advice. Robust QA can help assess whether advice meets consistent standards, is suitable and that information provided to customers is clear, fair and not misleading.

From the CRP reviews most firms had set a minimum for the number of advice files checked.

Good practice

- Having a comprehensive and clear process describing how advisers and ARs would be supported from recruitment to achieving competent adviser status and beyond.
- Advice on complex or high-risk recommendations only permitted by approval from the principal firm and with a requirement for specific training and qualifications.
- Completing reviews and identifying trends through QA that require further attention to ensure advice was suitable.

Poor practice

- Having arrangements with external compliance firms to provide oversight and QA but the terms of the arrangements and how the providers had been selected or appointed were not clear.
- Unable to explain precisely what service was provided by the outsourced provider apart from providing a generic overview of the T&C scheme the outsourced firm had put in place.

Adviser incentives – Objective: The firm has appropriate remuneration policies, procedures, and practices to promote effective risk management.

The way advisers are rewarded can lead to bias in recommending products and solutions. Incentives in place should encourage good behaviour and lead to good outcomes. Firms are required to act honestly, fairly and professionally according to the best interests of the customer.

Most firms set adviser incentives on a range of factors. For example, QA scores, customer outcomes and KPIs. 295 out of 940 firms had a clawback policy in place for incentives paid to help mitigate against the risk of poor advice.

From the CRP reviews (excluding 4 owner run firms), 16 of the 20 had an agreement in place showing how remuneration would be calculated, linked to KPIs to incentivise factors such as suitability of advice and good outcomes. 2 had no written remuneration policies in place showing how pay would be calculated, although stating pay was linked to KPIs.

Good practice

- Having detailed remuneration and incentives scheme in place, which ARs were required to follow and providing a template asking for both qualitative and quantitative factors to be used, ensuring that risks were recognised and appropriately managed. All AR needed the agreement of the firm and were subject to annual reviews, comprising assessment of various factors, including customer outcomes.

Poor practice

- At 2 firms with self-employed advisers. With 1, pay was linked to fees generated by assets under management (AUM). KPIs were in place to monitor adviser performance and there was a clawback arrangement in place. Neither had controls in place to manage any inherent risk. Linking pay to AUM has the potential to incentivise recommendation in drawdown rather than annuities. Firms should manage this risk.

Treatment of vulnerable consumers – Objective: The firm ensures vulnerable customers are treated fairly during the advice process.

Firms should understand and be alert to potential signs of vulnerability in their customers. Vulnerable customers should be assessed individually without a one size fits all approach to groups. Where potential vulnerabilities are identified, firms should respond by making reasonable adjustments to support their needs.

The FCA expect firms to be able to identify when customers with characteristics of vulnerability, receive systematically poorer outcomes. This may indicate that the firm is not meeting the Duty.

- 952 out of 958 implemented policies that helped identify vulnerable customers.
- 6 did not have a policy in place.

Most firms had made reasonable adjustments to help vulnerable customers, including the following (more than one may apply):

- 957 would include family or friends in meetings.
- 937 would provide home visits.
- 929 would use face to face advice instead of online/paper.
- 770 would provide telephone advice.
- 743 would provide more touchpoints/interactions.
- 624 would use more concise or clearer documentation.

From the CRP reviews 21 of the 24 firms (88%) had considered vulnerabilities and put in steps to help employees identify vulnerable customers and provide support. Training had been implemented by most with regular updates and assessments. A small number had a generic vulnerable customer policy, with no indication these had been properly considered, or implemented for the relevant business.

For almost half it was not clear how they would monitor vulnerable customer outcomes. Despite having policies in place, they did not appear to collate any data to be able to measure or track customer outcomes.

Firms should ensure processes are implemented effectively. Firms have thought about the needs of vulnerable customers, but findings suggest firms are not putting these considerations into practice consistently.

Good practice

- Using analytical call software to identify vulnerability that might otherwise be missed by advisers. Advice guides containing information on how advisers could support customers.
- With complex considerations, running outcome review case clinics by subject matter experts to agree the best way to support the customer.
- Putting all employees through a detailed training programme to identify early signs of dementia on calls, and how to identify physical and visible signs during face-to-face meetings.
- Sessions held for employees to put themselves in the shoes of customers and identify where customers might be susceptible to financial abuse.

Poor practice

- Having generic vulnerable customer policies in place. One policy was almost identical to that of another firm in the review, suggesting it had been provided by a third party, but which had not been tailored or adapted for the firm, and there was no evidence the policy had been applied in practice.

Conflicts of interest – Objective: The firm has a clear policy in place to manage any conflicts of interest.

Firms are required to take steps to identify, prevent and manage conflicts of interests when providing a service that may damage the customer's interest, including where the firm:

- is likely to make a financial gain at the expense of the customer.
- has an interest in the outcome of a service or transaction carried out on behalf of the customer.

From the CRP reviews

- 20 of the 24 firms (83%) had a conflicts of interest policy.
- 2 firms had no policy in place.
- 1 had a policy which did not cover all potential conflicts.
- 1 had only a generic policy which did not relate specifically to the firm.

Good practice

- Monitoring conflicts regularly, with at least quarterly reviews on how conflicts were identified and assessed.
- Conflicts of interest register recording examples of where potential conflicts might exist, including whether remuneration might influence advice and lead to product or fund bias.
- Relationships with third parties and personal relationships between colleagues and competitors captured.

Poor practice

- A policy focused solely on a part of the business and did not considering or accounting for conflicts that existed with its advice business.
- Failure to recognise or mitigate against conflicts put customers at risk of harm through potentially paying higher charges or investing in solutions that might not meet their needs.

CHAPTER 5

The Consumer Duty

The Consumer Duty applies to advice to retail customers, including retirement income advice.

The Duty Principle and cross-cutting rules

The cross-cutting obligations require firms to:

- Act in good faith.
- Avoid causing foreseeable harm.
- Enable and support retail customers to pursue financial objectives.

Products and services outcome

The Duty sets rules for the manufacture and distribution of products and services. Firms providing retirement income advice will be:

- Manufacturers of their advice services.
- Distributors of the service.
- Distributors of products.

5.4 Among the requirements, manufacturers must:

- Specify their target market for the service.
- Assess all relevant risks to the target market.
- Design the service to meet the needs characteristics and objectives of the target market.
- Ensure the design of the service avoids causing foreseeable harm to the target market and doesn't adversely affect groups of customers in the target market, including those with characteristics of vulnerability
- Take all reasonable steps to ensure the service is distributed (only) to the identified target market.
- Regularly review whether the service meets the needs, characteristics and objectives of the target market, including customers with characteristics of vulnerability within the target market.
- Monitor whether the distribution strategy remains appropriate and whether the service is being sold to customers within the target market or is reaching customers outside the target market.

There are requirements for distributor firms under the products and services outcome, firms need to understand the:

- product or service.
- target market.
- intended distribution strategy.
- need to ensure the product or service is distributed in line with the needs, characteristics and objectives of the target market.

The price and value outcome

Requirements differ for manufacturers and distributors.

Manufacturers must ensure its retirement income advice services provide fair value for retail customers in the target market for those services. Fair value is when the amount paid is reasonable relative to the benefits.

Manufacturers are required to carry out a value assessment, and then review that assessment on a regular basis, including:

- The nature of the service, including its quality and any benefits that customers can reasonably expect.
- Any limitations that are part of the service
- The expected total price paid, including:
    - Fees and charges of the firm.
    - Other charges such as for product charges.
- Characteristics of vulnerability in the target market and the impact they could have on receiving fair value.

Distributors are subject to rules on price and value. Firms must not distribute a product or service unless the distribution arrangements are consistent with providing fair value. Firms must understand the value assessment of the manufacturer and consider whether other charges added through the distribution chain would result in the product or service ceasing to offer fair value.

The consumer understanding outcome

The Duty sets requirements in relation to retail customer understanding, including:

- A general requirement to ensure communications meet the information needs of customers.
- Likelihood of being understood by customers.
- Equiping customers to make effective, timely and properly informed decisions.

Firms must ensure communications are likely to be understood, and test and monitor communications to identify whether they are supporting good outcomes.

The consumer support outcome

The Duty requires firms to provide support that meets their customers' needs, so they can use the services as reasonably anticipated. Cross-cutting obligations enable and support customers to pursue financial objectives. Firms should ensure support is provided at the right time and is appropriate for deciding how to take decumulation benefits.

Firms should
- Monitor support provided.
- Take relevant feedback into account.
- Look for signs that the design and delivery of their CRP and support is not sufficient to customer needs.
- Take reasonable steps to address any shortfall in the support they provide.

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