Which?, 2 Marylebone Road, London, NW1 4DF
Date: 23 October 2017
Response by: Which?

Written evidence submitted by Which?

Work and Pensions Select Committee Inquiry: Pension Freedoms

About Which?

Which? is the largest consumer organisation in the UK with more than 1.7 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers and funded solely by our commercial ventures. We receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

Which? has considerable experience in providing information and guidance on personal finance issues. The Pensions and Retirement section of the Which? website received over 1.6 million views between September 2016 and September 2017. Of these, the most viewed page was 'How much state pension will I get', which received more than 350,000 page views. The Which? Money Helpline, set up in 2009, provides personalised one to one help and guidance to Which? members on any personal finance matters over the telephone. We deal with thousands of calls a month, of which a significant proportion relate to pensions and retirement planning, making it our most popular subject.

Summary

- Which? is concerned that, when accessing their pension savings, most consumers accept the income drawdown option offered by their pension provider without shopping around. The Financial Conduct Authority (FCA) should introduce default income drawdown investments and an associated charge cap for the least engaged consumers, analyse the level of total charges that different groups of consumers are currently paying, and assess how charges relate to providers' costs.

- The Government, working closely with the FCA and industry, should introduce a robust system to monitor the long-term impact of the pension freedoms with a specific focus on consumer outcomes.

- The Government should encourage the increased take-up of the Pension Wise guidance service through 'wake up' services delivered via the pensions dashboard and potentially via a 'default' offer of guidance for consumers approaching retirement.

- The Single Financial Guidance Body should be set up with a focus on outcomes rather than outputs, and should conduct a thorough assessment of consumer need before providing

Which?

services. The Body should also have full control over its finances to guarantee independence.

- The pensions dashboard could have huge benefits for consumers and would be a vital tool in helping them to keep track of their pension pots. The Government needs to ensure that the final dashboard goes beyond the current prototype and is delivered collaboratively, effectively and to schedule if it is to be of real use to consumers.

- The Government and regulator need to work closely with industry to introduce further measures, such as network-level call blocking, to ensure that consumers are protected from pension scams.

Introduction

1. We welcome the opportunity to respond to the Committee's inquiry into pensions freedoms. It is critical that the pension freedoms work for all consumers and that savers are able to afford a comfortable retirement. The pension reforms have enabled savers to exercise freedom and choice about how they access their retirement income. However, they have also exposed individuals to new risks.

2. While there are more options available to individuals when they retire, considerable uncertainty and anxiety surrounding retirement decisions has remained. There are also significant concerns about poor value for money and complex and high charges, particularly in relation to workplace pension schemes and drawdown products at retirement[1]. Our research of five investment brokers and five large pension companies, showed significant differences in the level of charges customers face. With a pension fund of £250,000, the difference between an expensive provider and one that's more cost effective could mean a saving of nearly £1,000 each year in charges.

3. In addition, the Which? Consumer Insight Tracker[2] found that, in September 2017, less than a quarter of consumers (24%) trust longer-term financial products compared to almost half (44%) who say they trust day-to-day banking. This lack of trust coupled with a significant lack of consumer engagement across the pensions sector means disengaged savers often struggle to make the right decisions about their pensions – both when saving for and when making decisions at retirement – and as a result have less money to live on.

4. Which? is concerned with the FCA's finding[3] that when accessing their pension savings, most consumers accept the income drawdown option offered by their pension provider without shopping around. We conducted research[4] in February 2017 which showed that 43% of consumers who purchased a product from their existing provider said they stuck with them because it was the most convenient option while a third of consumers (36%) didn't know whether you could switch provider of an income drawdown product if

[1]Which? (2017), 'Are you missing out on a pension goldmine?', Which? Money, April 2017

[2] The Which? Consumer Insight Tracker is a nationally representative online poll of around 2,000 households conducted every two months. The survey covers consumer worries, trust in industry types, and financial distress. Full Tracker available online here: https://consumerinsight.which.co.uk/tracker/trust

[3] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

[4] The key findings from the research are available here: http://consumerinsight.which.co.uk/articles/pension-decumulation-feb2017

Which?

you were not happy. This implies limited competitive pressure to offer good deals and that consumers are unlikely to be getting good value.

5. Savers are also finding it difficult to keep track of their pension pots and understand how much they are saving/have saved. The Government has outlined the scale of 'lost' pensions, estimating that the value of unclaimed pensions totals around £400 million[5]. Further Which? research[6] conducted in March 2016, shows that nearly half of those over 50 (47%) are not sure of the value of their pensions savings, and over a third of people (37%) approaching retirement find it difficult to keep track of their pension pots. While the Government-backed Pensions Dashboard project will be a vital development, there is more work to be done to ensure that the Dashboard is a real success for consumers.

6. Pension Wise has a key role to play in helping consumers. However, it is important to recognise that, in a market characterised by relatively low levels of consumer engagement, some consumers will not take up the offer of free guidance. Figures from the FCA[7] show that 30% of drawdown is now bought without advice. This means that further safeguards are needed to ensure consumers are adequately protected from poor sales practices, poor value products, scams and wider causes of significant detriment.

7. Below are our responses to some of the specific questions outlined in the consultation.

What are people doing with their pension pots (including defined benefit pension entitlements) and are those decisions consistent with their objectives? Is there adequate monitoring of the decisions being made?

8. Which? recently completed research[8] of consumers who have recently accessed their pension pots, which we shared with the FCA's Retirement Outcomes Review team and which was cited in the regulator's interim report[9].

9. We found[10] that the most frequent action (56%) by consumers in our sample was to withdraw 25% or less of one or more of their pension pot/s tax-free as cash. Around 1 in 10 (13%) took all their pot as cash overall. However, for those who estimated their pension pot value was worth less than £40,000 a higher proportion (24%) withdrew it all.

10. Upon further examination, we found that the decision to access tax-free cash is often distinct from any decisions about retirement income. 45% of respondents to our survey that had accessed a tax-free lump sum were in full-time employment, which suggests that most of these consumers would be unlikely to be taking a retirement income. The qualitative interviews that we conducted reinforced that tax-free cash lump sums were typically being used for other purposes than retirement income. Many interviewees said that they saw their tax-free lump sum as "win-win" with little consideration of the opportunity cost, such as the impact this could have on their available pot size when it comes to taking a future product decision.

---

[5] Figures correct as of May 2016: https://www.gov.uk/government/news/new-pension-tracing-service-website-launched

[6] http://press.which.co.uk/whichpressreleases/which-urges-government-to-act-on-pensions-dashboard/

[7] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

[8] The key findings from the research are available here: http://consumerinsight.which.co.uk/articles/pension-decumulation-feb2017

[9] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

[10] The key findings from the research are available here: http://consumerinsight.which.co.uk/articles/pension-decumulation-feb2017

11. This finding is supported by previous Which? research[11] from February 2016 which showed that nearly half (47%) of those surveyed took some or all of their tax-free lump sum to boost their immediate finances. Just over a fifth (23%) of those we surveyed had cashed in an entire pension between April 2015 and February 2016 – but this was mainly smaller pots, with 17% of people cashing in pensions worth less than £30,000 and just 6% withdrawing pensions of more than £30,000. Many will have more than one pension and choose different options for each.

12. Despite worries that the freedoms would lead to savers spending all or most of their money on big purchases, such as a car, our findings[12] suggest that most people converting pension funds into cash are usually looking to avoid a portion of the money being taxed at 40% or above, which would apply if the taxable income was over £42,385[13]. The remainder tended to be in the £30,000-£50,000 range with a few members deciding to take the tax hit. Money is generally being reinvested into Isas and Premium Bonds rather than fuelling immediate spending.

13. It is difficult to assess the complete impact of the pension reforms on consumers given the short timeframe since the reforms were introduced. While figures indicate the kinds of decisions being made by consumers at point of drawdown, it remains unclear whether such choices result in good or bad outcomes for the consumer. There needs to be a greater focus on and improved monitoring of long-term consumer outcomes and the Government and regulator must ensure that robust monitoring mechanisms are put in place.

Which? Recommendation:

14. The Government and the FCA must introduce a robust system to monitor the long-term impact of the pension freedoms with a specific focus on consumer outcomes.

Are people taking proportionate advice and guidance and if not, why not? Are people adjusting behaviour in response to advice and guidance?

15. Evidence from the FCA indicates that consumers struggle to understand their pension decumulation options and to think through the implications of such decisions. While our research[14] shows that four in ten (40%) consumers used an independent financial adviser when deciding how to access their pension pot, consumers were more likely to access information from their current pension provider. Half (53%) of the respondents to our research said they used their existing pension scheme provider when deciding how to access their pension pot; and four in 10 (42%) of those who took an annuity or income drawdown product said they used their existing pension scheme provider when choosing which provider to purchase from.

16. Our qualitative research[15] found, however, that others felt that their provider was reluctant to engage with them directly as the consumer, preferring to deal with IFAs. Free advice

[11] Which? (2016), Full House: Pension reforms mean retirees are free to access their savings as they see fit, Which? Money, 2016
[12] Ibid
[13] Note: the threshold for the 40% tax rate has since increased to £45,000
[14] The key findings from the research are available here: http://consumerinsight.which.co.uk/articles/pension-decumulation-feb2017
[15] Ibid

from a Government body/service was less popular although still cited by some consumers, followed by research online. Despite self-reported awareness, only 36% of consumers said that they used government advisory bodies as an information source on options and 27% on provider choice.

17. There remain concerns, however, around how influential such guidance and advice is in making retirement decisions. In a 2015 Which? survey[16], that focused on the segment of people with £10,000 – £50,000 to invest, eight in 10 said that they were aware of independent financial advisers (IFAs) and knew at least broadly what they do, but the majority had not used them. When asked about specific products they had taken out, only a third (32%) of people who had taken out an investment product reported that an IFA influenced their decision.

18. In addition to a lack of tailored information on Government/public websites, there are significant barriers that mean consumers do not access financial advice, including a lack of trust, a lack of appreciation of the benefit that financial advice can bring, and a lack of willingness to pay the cost of traditional advice.

To what extent will pensions dashboards enable consumers to make more informed decisions about their retirement savings? What are the remaining obstacles to their creation and success and how should those obstacles be overcome?

19. UK consumers will have, on average, 11 different pension pots over their lifetime[17]. However, there remains a significant lack of engagement with and chronic low levels of trust in pensions products and the pensions industry more broadly.

20. In 2013 Which? held a series of focus groups of 6-8 people. These groups[18] found that amongst those approaching retirement, few had thought through in detail how they were going to fund their retirement, or how much money they would actually need. Of those who had pension savings, only a minority were able to talk in detail about their pension provision, often lacking knowledge about who their provider/s are, what their pot size is and their expected annual retirement income.

21. Consumers' lack of knowledge about their pensions is reinforced in the findings of further 2016 Which? research[19] with consumers who were approaching retirement and had a personal pension. It found:

    - Nearly half (47%) of those aged over 50, employed and with a personal pension were not confident they know the total amount of money they have saved in their pension pot.

---

[16] Populus on behalf of Which?, interviewed 1000 UK adults online who reported they had between £10 and £50k available to invest, between 27th and 29th November 2015. Data were weighted to be demographically representative of the UK population.

[17] https://www.gov.uk/government/news/thousands-more-make-contact-with-long-lost-funds

[18] Four focus groups of 6-8 people were conducted in February 2013. The sample ensured a spread of geographical locations (South, Midlands and North) and of people (male and female, SEG, aged 22yrs to state pension age, pension provision and no pension provision)

[19] Populus, on behalf of Which?, interviewed 1178 UK adults online between 27th January and 3rd February 2016: 674 were over 50 years, employed and have a personal pension. Populus is a member of the British Polling Council and abides by its rules.

- A fifth (21%) said they have never checked how much they had saved in total in their pension pot(s).
- One in 20 (5%) last checked five or more years ago.

22. These findings suggest that people approaching retirement may not know sufficient information about their pension to be able to make an informed decision on how best to use their savings in retirement.

23. Behavioural biases hinder consumer engagement with pensions. However, there is some indication that there are also practical barriers to engagement. The same research also found that of those aged over 50, employed and with a personal pension:

    - A fifth (21%) said that they would not know how to find out the details of their pension pot/s.
    - Four in 10 (37%) reported that they find it difficult to keep track of pension pot/s.
    - A third (34%) said that keeping track of their pension pot/s is time consuming.

24. If delivered effectively, the Pensions Dashboard has the potential to significantly improve consumers' engagement with pensions. It would allow consumers to view all of their pensions and savings in one place, alongside their state pension forecast. It would remove some of the barriers to engagement, and would help consumers, pension providers and those responsible for guiding or advising customers to ensure they are able to make the most of their savings. International evidence also indicates the benefits of such dashboards, based on use and self-reported judgements of value.

25. Which? has been very supportive of the industry project to design a prototype system which was delivered earlier this year, but we remain concerned that it currently only contains basic information that will not lead to the dramatic improvements in engagement needed.

Which? Recommendations:

26. <u>Coverage</u>

a. To ensure comprehensive coverage, the Government should introduce legislation to give consumers a clear legal right to access their pension data in an electronic format.
b. The Government should ensure that information about State Pensions, Private and Public Sector DB schemes, DC schemes and Pensions already in payment are included on the Dashboard.

27. <u>Dashboard providers</u>

a. The Government should stipulate that providing a dashboard is a regulated activity, and the FCA should consult on the regulatory framework of dashboard providers, including clear conduct standards and a duty of care for Dashboard providers and pension schemes.
b. A dashboard should be hosted on the website of the new Single Financial Guidance Body, and multiple dashboards should also be available from commercial organisations subject to consistency of information and appropriate regulation.
c. The Government should guarantee offline access to the Dashboard for consumers who are digitally excluded.

28. What is included on the dashboard?

a. The Government should mandate that by 2019 the Dashboard must include the value and location of pensions, current contributions, projections of values to a chosen retirement date, details/flag of guarantees and extra benefits, investment/fund holdings, default investment strategy, charges, services offered and availability of employer matching contributions.
b. The Government should conduct extensive consumer testing to ensure that the Dashboard uses simple language, clear methods of displaying data and can help consumers take beneficial decisions.
c. The Government and regulator should introduce greater standardisation concerning how projections of future pensions are calculated.

29. Governance

a. An independent organisation should be established, with an independent chair and with representatives from industry, consumer groups, fintech, regulators and Government to implement the Dashboard by 2019 and develop a long-term vision for its future expansion and clear criteria for its evaluation.

30. Further Ahead

a. The Government and the FCA should develop a strategy to expand consumers' rights to their financial data to other products including all ISAs and savings accounts, investments, debt and insurance and aligned with the existing Open Banking/revised Payment Services Directive (PSD2) initiative to provide consumer access to financial data in current accounts and other online payment accounts.

Is Pension Wise working? If not, how should it be reformed? Are there any implications for the proposed creation of a new single public financial guidance body?

31. Provision of a free, impartial guidance service for consumers is undoubtedly important, however Which? research from February 2017[20] found that Government advisory bodies are used by less than half of our sample. Whilst there was high claimed awareness of government advisory bodies, and what they do, in our quantitative research, our qualitative research found that there was low awareness of phone and face to face guidance from Pension Wise. Moreover despite self-reported awareness, only 36% of consumers said that they used government advisory bodies as an information source on options and 27% on provider choice. The main reservation was that the information was top-line and too basic.

32. For non-advised consumers, guidance can provide personalised information and support. So far, take-up has been low for the free guidance that is available via phone and face-to-face from the government-backed Pension Wise service. While consumer satisfaction with the guidance service has been high, this does not necessarily mean that the service is helping materially to improve consumer outcomes. We therefore continue to share the concerns of the Work and Pensions Committee, which in 2015 criticised the Government for the "dearth of Pension Wise statistics"[21], including a lack of data on consumer outcomes.

[20] The key findings from the research are available here: http://consumerinsight.which.co.uk/articles/pension-decumulation-feb2017

[21] https://publications.parliament.uk/pa/cm201516/cmselect/cmworpen/371/371.pdf

33. Government and the regulator should promote increased take-up of the Pension Wise guidance service. One option would be to deliver 'wake up' services via the pensions dashboard project. This could both prompt and facilitate consumers to think about their retirement income options. Another option would be to offer a guidance session as a 'default' for non-advised consumers that request access to a pension pot. Further work is required though to understand precisely why take-up has been so low and whether a prompt such as a default offer could improve take-up. The service also needs to have a stronger focus on improving consumer outcomes, with regular monitoring and evaluation, especially if the service is to be significantly scaled up.

34. Which? supports the decision to create a new single body to deliver financial guidance, and broadly agrees its remit. However, we believe that the new body needs statutory objectives that are based on outcomes and the Government should outline how these objectives will be measured including:

- **Assess consumer need** – the new body should be established before it begins delivering services so that it can assess consumer need and understand the gaps in existing provision. This is one of the key lessons from the launch of the Money Advice Service (MAS) in 2010.
- **Delivery channels** - there should be no need for the Government to specify which specific delivery channels are used. The new body must consider the most efficient and cost effective way of providing consumers with access to impartial guidance from suitably qualified experts, while allowing users the freedom to access information in a way that is suitable to them.
- **Personalised and expert guidance** - guidance must offer consumers holistic, personalised, high quality and impartial support that considers the individual's complete financial situation. However, the new body should not duplicate existing information and guidance that is available elsewhere, and it is important that existing content and tools are not lost.
- **Reaching consumers** – raising consumer awareness of the service will be key. This could include exploring requirements on financial services providers to signpost the services on their communications or considering trigger points that prompt consumers to seek support.
- **Independence -** it is vital that the new body remains independent and at arm's length from the Government, with clear lines of accountability.

Which? Recommendations:

35. The Government should encourage the increased take-up of the Pension Wise guidance service through 'wake up' services delivered via the pensions dashboard and potentially via a 'default' offer of guidance for non-advised consumers that request access to a pension pot.

36. Both Pension Wise and the new body need statutory objectives that are based on outcomes, and the Government should outline how these objectives will be measured to ensure good consumer outcomes.

37. Taking an approach that focuses on consumer outcomes means that the Government should be neutral on delivery channels. In addition, a comprehensive assessment of the

consumer need should take place before the body begins to deliver services. The guidance provided by the new body must be personalised and delivered by experts, and the service should be designed around how consumers access support.

38. The new body should remain independent and at arm's length from the Government, and it should be equally independent from the financial services industry, with full control over how its funds are spent.

Are there persistent gaps in the advice and guidance market and what might fill them? Is automated advice and guidance filling gaps as expected?

39. There are significant demand-side barriers that mean consumers do not access financial advice. These include a lack of trust, a lack of appreciation of the benefit that financial advice can bring, and a lack of willingness to pay the cost of traditional advice.

40. Many consumers do not trust providers of financial advice. When asked about reasons for or against using an IFA for different types of financial advice, our research from 2015[22] suggests that, for some, a lack of trust in IFAs is a barrier to getting advice. 39% of people aged over 50, with £10,000 – £50,000 to invest, said they would not trust an IFA to act in their best interests when giving advice on taking money out of a pension when they are approaching/are in retirement. 34% of respondents said they would not trust an IFA to act in their best interests when giving advice on a specific investment product, and 33% said they would not trust an IFA when giving holistic advice.

41. While trust is clearly a significant issue, the same research also found that 71% of respondents had not even considered using an IFA for holistic advice, 69% had not considered it for advice on saving into a pension, 68% had not considered it for advice on what do with their pension savings when approaching/in retirement, and 67% had not considered using an IFA for advice on a specific investment.

42. When asked about reasons for or against using an IFA in different scenarios, over half of respondents said they thought IFAs are too expensive. The gap between what consumers are willing to pay for advice, and the cost of traditional advice channels, is undoubtedly a significant barrier to people accessing financial advice. Our study found that the target segment of people who had £10,000 - £50,000 to invest would be on average prepared to pay about £258 for IFA advice on how to invest an inheritance of £60,000. Which? published[23] the average costs of financial advice in a range of scenarios, based on a survey on 206 IFAs in August 2015. The average cost for investing a £60,000 inheritance was £1,452. The highest estimate we received was £3,000, and lowest was £300.

43. There is also a lack of information and transparency about the costs of financial advice. In the same study, we found that more than two thirds (349) did not publish their fees and charges online, giving customers no advance indication of what they could be charged. 115 of the 500 websites we looked at purported to show their fees, but 76% of these did not

[22] Populus on behalf of Which?, interviewed 1000 UK adults online who reported they had between £10 and £50k available to invest, between 27th and 29th November 2015. Data were weighted to be demographically representative of the UK population.
[23] Which? 2015, 'On the hunt: Financial Advisers make it tough to track down the cost of their services. So, how much for they actually charge?", Which? Money (2015)

Which?

give enough detail to give a real indication of what a consumer would pay and just 2% of the sites we looked at published genuinely useful information for clients including a clear breakdown of charges. Even when we asked IFAs directly, 12% refused to give any information on their costs over the phone. This lack of transparency increases the challenges consumers face when trying to assess the benefits of receiving financial advice. IFAs are currently required to give prices to clients only before an agreement is reached, and this usually happens at the introductory meeting. All IFAs should be required to disclose charging structures on their websites so customers know up-front what services are likely to cost and can shop around before committing to meet advisers face-to-face.

44. New models of advice, for example automated guidance and 'robo-advice', and new providers not only have the potential to substantially reduce the costs of advice to levels closer to those that people are willing to pay, they bring the potential for addressing other demand side barriers and stimulating new demand.

45. However, the extent to which consumers accept new models of advice will affect their potential to reduce the advice gap. Our research[24] found that the majority of people with £10,000 – £50,000 to invest said that they would prefer to receive advice from an IFA face-to-face, if all options cost the same, and in terms of online advice, they were more likely to prefer an online form which is then analysed by an IFA, rather than simply an algorithm. Indeed, 58% of people said they would not want a computer programme to give a recommendation.

46. Expense and trust are not the only demand-side barriers to accessing independent financial advice though. When asked about reasons for and against using an IFA, nearly 6 in 10 (58%) of respondents said that a barrier to going to an IFA for advice on a specific investment was that they felt confident to make their own decisions. In addition, around half of people said they would be put off going to an IFA because they could get financial advice of similar usefulness for free elsewhere. This suggests that consumers' ability and willingness to self-advise could be a reason for not seeking professional, paid-for financial advice.

47. For many consumers, the benefit of paid-for financial advice is not clear, particularly when compared to what can be achieved using free resources. This may in some cases be misplaced confidence, based on a lack of appreciation of the complexity of particular financial matters, and/or the benefits that financial advice can bring. There is a case for considering what more could be done to increase consumers' understanding of the specific benefits of paid-for advice over and above free sources.

Which? Recommendations:

48. The Government should encourage a regulatory framework that promotes technologically innovative models of advice, which will ultimately help to reduce the advice gap through a reduction in cost base of advice.

[24] Ibid

Which?

49. Additionally, all IFAs should be required to disclose charging structures on their websites so customers know up-front what services are likely to cost and can shop around before committing to meet advisers face-to-face.

50. Publicly-funded guidance, provided through the new Single Financial Guidance Body, should focus on the gaps in private provision, and not seek to replicate mass market advice provision.

Is there evidence of product market competition resulting in cheaper, clearer or wider products for consumers? Are people switching from their pension provider in accessing their pots? Is an adequate annuity market being sustained?

51. Following the pension freedom reforms, it is clear that further innovation in the pensions decumulation market is needed, and providers should be looking to develop new products that meet their customers' needs in a changing environment. Which? notes that the Pensions and Lifetime Savings Association's (PLSA) research[25] has found limited evidence of drawdown solutions designed for the mass market with low charges. Furthermore, the FCA interim report's[26] evidence of a vast array of complex charges for income drawdown, including up to 16 administration charges, implies a lack of competition in the market as is almost impossible for consumers to compare charges between income providers and investments.

52. A November 2015 Which? investigation[27] highlighted significant failures of some major pensions companies to provide consumers with flexible retirement options. We asked 25 members holding pensions with 11 companies to enquire about getting flexible access to their savings. Our findings showed that savers were being denied full access to the pension freedoms and were given inconsistent, unclear information about the associated risks, with providers implementing the 'second line of defence' without consistency. Providers also failed to respond quickly, with one member waiting over a month for a return call while some major providers didn't offer flexible income drawdown at all, or required savers to be referred by a financial adviser first. This left consumers having to either transfer money to another provider - risking exit fees - or waiting until their pension company decided to offer the full pension freedoms. In some instances, savers were also told that their provider could not provide flexible access to their money, despite this not being the case.

53. It is vital that all consumers are able to access low-cost, high-value products when taking money out of their pension. More work, therefore, needs to be done to identify the best mechanism to enable this outcome. The Government should continue to examine the case for a broader role for NEST, and undertake a more thorough assessment of the impact this may or may not have on how the market develops.

54. The FCA's consumer research has highlighted how simpler cost metrics can make it easier for consumers to make comparisons. Given the current lack of standardised cost information across providers, the introduction of mandatory costs metrics would be a major breakthrough, particularly if these can be used to help enable comparison tools to emerge. As many of the costs borne by consumers are dependent on their behaviour, including how

[25] https://www.plsa.co.uk/portals/0/Documents/0564-Pension-Freedoms-no-more-normal-v4.pdf
[26] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf
[27] Which? 2015, 'The struggle for freedom', Which? Money (2015)

often they make withdrawals and the impact of withdrawals on the size of their investment, meaningful comparisons may also require consumers to input some information on their intended withdrawal strategy. Even with simplified cost metrics, however, consumers will need to be supported in considering how they might use income drawdown products, including using the Pension Wise guidance service.

55. In 2017 Which? research[28], half of the respondents (55%) either said they did not know (36%) whether it was possible to switch providers after initially purchasing income drawdown, or incorrectly thought that you could not switch (19%). This suggests that low switching rates could persist beyond the initial purchase of an income drawdown product. The low levels of switching and lack of engagement in the choice of provider and investment product mean that consumers need to be protected from potentially excessive prices and inappropriate or unsuitable investment products.

Which? Recommendations:

56. The FCA should develop and mandate summary cost metrics and encourage comparison tools for income drawdown. This will help consumers, increase shopping around, and promote competition. Summary cost metrics should also reflect reforms to the way charges are shown across the wider asset management industry.

57. The Government should consult further on the establishment of an organisation for the provision of good-value products for consumers when taking money out of their pension.

58. Following the publication of the FCA's Retirement Outcome Review final report, the Committee should question both the FCA and CMA about the levels of competition in retirement income products, and how well the market is working. One potential outcome could be a market investigation to examine in depth the failings identified.

Are the Government and Financial Conduct Authority taking adequate steps to prevent scamming and mis-selling?

59. The Government's recent announcement on the ban on pension cold calling is welcome and we support the recommendations to extend the ban to all forms of electronic communication as this will ensure that the ban is future-proofed against innovations in the technologies that scammers may use.

60. However, a ban on cold calling is likely to be difficult to enforce, and this would be the same for a ban on electronic communications. However, technology to filter and block messages, and indeed trace communications, already exists. As with measures to directly block calls at a network level, Which? is supportive of additional measures that would complement a ban.

61. Scammers are changing their tactics in response to the regulatory changes to the sector. In our July 2016 investigation of pension scams[29], we found significant numbers of paid-for adverts on search engines such as Google, aimed at attracting consumers seeking to find

[28] The key findings from the research are available here: http://consumerinsight.which.co.uk/articles/pension-decumulation-feb2017
[29] Which? 2016, Pension Sharks, Which? Money (2016)

out how to withdraw money from their pension. Our research found that scams broadly fit into two categories: pension 'liberation' and pension investment scams.

62. Pension investment scams often lead to money being transferred, usually overseas, never to be seen again. We put some terms into Google that have been highlighted by The Pensions Regulator as labels used in scams – notably 'free pension review', 'early pension release' and 'cashing in your pension'. Many of the ads we saw were for websites that appear to offer pension advice, but are in fact unregulated 'lead generation' websites, owned by marketing companies, which will try to sell consumer details to regulated IFAs. Consumers would then get a call back first after completing a contact form, and then the company will try to place their business with an adviser.

63. Many adverts appeared to offer pension advice, but are in fact linked to unregulated lead generation websites, while other companies overstate the ease, speed and benefits of pension transfers, or pitch the potential benefits of releasing cash from a pension without mentioning the risks. Firms may circumvent a ban on cold calling by enticing consumers to complete a contact form online, before calling them back or passing the details onto another firm. Which? recommends further work into the conduct of lead generation companies, as well as supporting network-level call blocking to stop nuisance calls.

64. However, it is also pretty important to ensure that limits on consumers' statutory right to transfer a pension need to be proportionate and well-targeted. These measures must not make it unnecessarily hard for consumers to transfer to low-risk schemes.

Which? Recommendation:

65. The Government should work closely with industry and regulators to deliver a holistic approach to combat scams, including with Ofcom and telecoms industry to introduce network-level call blocking and regulators – delivering further work into the conduct and regulation of lead generation companies.

Are the freedom and choice reforms part of a coherent retirement saving strategy? To what extent is it complimentary to or undermined by other policies?

66. Which? has been supportive of the freedom and choice reforms, giving consumers greater flexibility in how they access their pension savings in retirement. However, there are aspects of the freedom and choice reforms, notably for consumers who are disengaged, that are not consistent with other pensions policy, such as auto-enrolment. In accumulation, the policy reflects the lack of consumer engagement in pensions, and defaults people into saving into a workplace scheme. It also protects these consumers with a charge cap on default workplace pension schemes.

67. The FCA should introduce 'default' investment pathways for consumers who do not or cannot engage with their investment decisions and an associated charge cap. This would reflect the approach taken to the highly successful auto-enrolment scheme which, through the introduction of a legal requirement on employers to enrol their workers into a regulated workplace pension, has been successful in engaging workers to newly save, or save more, into a workplace pension.

68. The interim report of the FCA's Retirement Outcomes Review[30] proposes two key options for safeguards that should be introduced for the least engaged consumers: default investment pathways for consumers who do not or cannot engage with their investment decisions; and a charge cap for these default investment pathways. Our 2015 Better Pensions report[31] welcomed the pension freedoms and called for these two safeguards to be introduced as part of a package of pre-emptive measures. We argued at the time that these safeguards were necessary because the retirement income market was characterised by low levels of consumer engagement, which the FCA's findings have confirmed. Moreover, the FCA's consumer research shows that "hardly any" non-advised consumers had shopped around, with many not even aware what product they had, what their charges were or what products they were invested in.

69. Furthermore, the FCA's interim report does not provide data on total charges for income drawdown despite the FCA's asset management market study[32] previously recommending a single, all-in fee for asset management. There is an even greater consumer detriment in the income drawdown market than in the wider asset management industry. Which? research[33] has found, for example, that consumers with a pension pot of £250,000 could save more than £10,000 in total charges over 10 years by investing in the same popular fund with the cheapest pension provider. Delivering a single, all-in fee is crucial for any simplification of charges for income drawdown.

Which? Recommendations:

70. The FCA should introduce default income drawdown investments and an associated charge cap for the least engaged consumers. The FCA should benchmark the charge cap against the most competitive pensions and savings products in the market. The FCA should also analyse the level of total charges that different groups of consumers are currently paying, and assess how charges relate to providers' costs.

71. The FCA should also encourage the increased take-up of the Pension Wise guidance service, including potentially via a 'default' offer of guidance for non-advised consumers that request access to a pension pot. The service also needs to have a stronger focus on improving consumer outcomes, with regular monitoring and evaluation.

Richard Piggin, Campaign Manager, Which?, 2 Marylebone Road, London NW1 4DF
richard.piggin@which.co.uk 020 7770 7545

---

[30] https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

[31] Which? (2015), Better Pensions, available at: http://www.staticwhich.co.uk/documents/pdf/better-pensions-report---march-2015-397468.pdf

[32] FCA (2016), Asset Management Market Study – Final Report, p.4

[33] Which? (2015), 'The fees of freedom', Which? Money, August 2015