



Financial Conduct Authority
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04 September 2020

Dear Sandra Graham and Zoe Jardine,

FCA GC20/1 – Advising on pension transfers

I am writing to you from the Institute and Faculty of Actuaries (IFoA) regarding your ongoing Guidance Consultation on pension transfers. The IFoA's Pensions Board has concerns about the impact parts of the consultation may have on pension scheme trustees' ability to support scheme members with decisions in relation to their retirement planning.

In particular, we note the guidance in Annex 2 of the consultation document, which states that providing illustrative figures on the transfer or conversion may be advice or an inducement will:

1. Mean a significant minority of schemes (those who provide illustrative transfer values and/or an indication of the income this may provide outside the scheme) may need to change their retirement process or risk providing advice.
2. Restrict pension scheme members' ability to make informed decisions about their pension benefits.

This element of the consultation has the potential to profoundly impact members of pension schemes. As such we are keen to understand the intention behind this guidance, and the extent to which it can be achieved while supporting pension scheme members' ability to make informed decisions.

Since the Freedom and Choice reforms, trustees of DB schemes have sought to educate members about their options, as a key source of information and support to members in making an informed decision about their pension. In a world where DB pensions advice is costly and scarce, an increasing number of pension schemes are providing one or more of the following as part of the retirement pack / process:

- An illustration of the transfer value payable should the member opt to leave the scheme
- An illustration of what that transfer might provide as an annuity or if put into drawdown
- Access to educational tools to explain the features of the defined benefit scheme along with annuity, drawdown and cash options as a step before the formal advice process
- A financial adviser to support members with their retirement options.

Conversely, where a member aged over 55 requests a transfer quote, it is good industry practice (as per PASA guidance) that administrators should also provide illustrative retirement figures at the same time. In addition, in order for a pension scheme to set up an efficient administrative process that enables members to access regulated advice from a reputable firm that has been appointed by the trustees or employer, these figures are required to be provided to members in their retirement packs.

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As context to this, we acknowledge that it may be in the interests of most DB members to retain their benefits in the scheme. But there will always be a group of members who may be better off taking a transfer.

Annex 2 of FCA consultation GC20/1 is a guide for employers and trustees on providing support with financial matters without needing to be subject to regulation. Page 82 states that *“some employers and trustees want to give their scheme members illustrative figures that compare the outcomes a member might get if they keep a safeguarded benefit or transfer/convert it into flexible benefits”* and *“that providing such figures could mean that firms are likely to be giving advice or an inducement.”*

We are concerned that a pension scheme providing an illustrative transfer value and / or an illustration of what that transfer might provide as an annuity or if put into drawdown may mean that the trustees are providing advice to the member. If this is the case, those schemes providing this information will need to change their retirement process.

Such a change may limit the number of pension scheme members who take advice, which is a worrying potential knock-on effect. Faced with the cost and difficulty of taking advice, we are concerned that members will simply draw their pension in the scheme irrespective of whether that is in fact right for them.

This guidance seems to contradict moves to ensure that DB scheme trustees communicate effectively with their scheme members.

We agree that members should take advice. And would have great concerns about the provision of illustrations if the member were able to transfer without taking advice. However, even if the illustrations were to suggest that a transfer might be attractive, members with transfer values in excess of £30,000 would be required to take advice before transferring to an alternative arrangement.

In our view the current position of limited guidance on how pension scheme trustees and sponsors can support their members is better than unclear or incomplete guidance which leaves schemes struggling with exactly what is, and what is not, allowed.

We are therefore keen the FCA works with the industry to agree wording of any revised guidance to ensure it complements the positive steps taken by schemes to maximise member outcomes. We would also like to reiterate our offer of a conference call with the FCA to discuss these points and development of any future guidance further.

Yours sincerely,

Mark Williams
Chair of the Pensions Board
Institute and Faculty of Actuaries