



CONSUMER
DUTY ALLIANCE



The Consumer Duty and Retirement Income target market

Supportive commentary for financial advice and planning firms



In partnership with



Disclaimer

This document is based on the Consumer Duty Alliance's understanding of the Consumer Duty and the regulator's Final non-Handbook Guidance for firms on the Consumer Duty, FG22/5, published July 2022. **This document should not be seen as a substitute for reading FG22/5.**

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The Consumer Duty Alliance



Following the introduction of the FCA's final rules in respect of the Consumer Duty on 27 July 2022 (FCA FG22/5 and FCA PS22/9) the Board of the Financial Vulnerability Taskforce recognised that the financial services sector would from this point on need to consider vulnerability within the wider context of the Consumer Duty, and that the Financial Vulnerability Taskforce would be better able to support the sector and meet its founding objectives of firms being widely recognised as a safe pair of hands by widening its focus accordingly.

In December 2022, the Financial Vulnerability Taskforce Community Interest Company formally changed its name to Consumer Duty Alliance Community Interest Company with a revised mission:

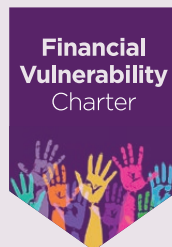
To inspire and raise confidence and trust in the financial advice and planning profession through the delivery of consistently good consumer outcomes, so it is seen by consumers alongside other professional services as a 'safe pair of hands'.

On 9 March 2023, the **Consumer Duty Alliance CIC (CDA)** launched as an alliance of affiliated organisations, associated firms and individual members, all with a common interest and ability to co-ordinate, influence and highlight positive actions and good practice from across the sector in respect of all aspects of the Consumer Duty, from regulatory rules and expectations through to business as usual.

You can find out more about the CDA, including how you can align your firm to its Code of Professional Standards, here:

→ consumerduty.org

The Board of the CDA is delighted to announce Legal & General and Howden Group as foundation affiliates of the CDA.



The Financial Vulnerability Taskforce (FVT) will continue as a brand operating under the CDA, whose Board will continue to identify areas and ways it can help develop and co-ordinate the knowledge, behaviours and good practice of firms in respect of their day-to-day dealings with clients in vulnerable circumstances.

The FVT will support high standards of professional practice through the continuing promotion of its FVT-branded Charter and Consumer Guide to professional firms and individuals within the personal finance and insurance sectors, as well as issuing good practice guides helping firms respond to clients in vulnerable circumstances.

You can find out more about the FVT including how you can align your firm to its Charter here:

→ fvtaskforce.com

Preface



Tony Miles MBA, DipPFS
Secretariat of the Consumer Duty Alliance

On 2 December 2022, the FCA issued a “Dear CEO” letter¹ to firms that confirmed the regulator’s growing concerns about the size and nature of the retirement income market, in particular those consumers with relatively less wealth or those drawing down large sums for the first time. The FCA stated, “Retirement income advice will be a focus for us over the next two years as we seek to explore how firms are delivering this and whether consumers are getting suitable advice.”

On 19 January 2023, the FCA announced the broad parameters of its thematic review of retirement income advice, to explore how financial adviser firms are delivering retirement income advice and to assess the quality of outcomes consumers are getting. Unsurprisingly, the FCA confirmed its intention to use the findings to help inform its future strategy for the sector, and that the results it collects will also be an important indicator of how firms are implementing the new Consumer Duty.

While the scope of this review has yet to be published at the time of writing, any regulatory scrutiny related to the Consumer Duty will no doubt involve the extent to which its cross-cutting rules and objectives have been incorporated by those firms that have identified those near or in retirement as a key target market. Here, recent trends in the manner in which an increasing number of people transition into retirement, and for some the very concept of retirement itself, have added layers of complexity to this matter.

This guide aims to contribute to the debate on what actions advice firms might consider taking, in the light of a changing retirement income landscape as well as corresponding changes in consumer needs. It is not intended to be a definitive or comprehensive assessment of actions to be taken in respect of the Consumer Duty, something that by its very nature requires a degree of individual interpretation by firms, and will no doubt develop as part of a wider iterative response from both the sector and the regulator over time. However, we hope it will provide some useful commentary to help support and inform firms’ actions in the lead-up to the introduction to the Consumer Duty in July 2023.



“This guide aims to contribute to the debate on what actions advice firms might consider taking, in the light of a changing retirement income landscape as well as corresponding changes in consumer needs.”

Contents

CONTEXT

The changing nature of retirement	6
Changes to funding in retirement	8
Understanding consumption and income needs in later life	13

THE CONSUMER DUTY

The FCA's Consumer Duty	17
The Consumer Duty and the retirement income target market	23
Delivering good outcomes	25
What next?	31
References	32
Appendix A	33

The changing nature of retirement

The nature of retirement and the way many people fund their retirement are changing. Any attempt to apply the requirements of the Consumer Duty to retirement income as a target market, will need to be cognisant of these changes.

It is a readily observable fact that, as average life expectancy has increased in the UK over past decades, so there is more variation in the experiences of people over the course of their later lives, many of which are correlated with unpredictable events or developments, such as age-related physical and cognitive decline, or care needs. At the same time, across the UK important transformations are taking place as a result of increased life expectancy, technological developments and the changing job market impacting on ways people are transitioning from work to retirement, with the timing and pathways being followed showing signs of notable change in recent years.

Most people of a certain age, who have been working in the UK for some years, probably started their careers against a backdrop of a traditional understanding of a three-stage approach to their working lives: education, followed by work and then retirement at a specific point in time. This made clear the distinction between a pre-retirement life typified by a focus on accumulating wealth, and a post-retirement period typified by a focus on decumulation, that hopefully delivered an income in support of a desired lifestyle and at a rate that would be sustainable throughout an individual's lifetime.

Move forward to today and an increasing number of people are juggling multiple jobs, and in some cases careers, as they approach later life. Fewer are working as employees, while self-employment and jobs in the gig economy, characterised by people working as contractors on a short-term or single piece of work basis, have risen. Others are taking part-time jobs to ease into retirement, starting businesses later in life or retraining for second "autumn" careers.

The recent cost-of-living crisis has made matters more complex. Research from Legal & General Retail² has found that 2.5 million pre-retirees may have to delay their retirement as a result of the cost-of-living crisis. Other who took early retirement during the pandemic are being categorised via a new description, "the unretired", who are feeling the need for more income, or just increased feelings of financial security.

Prior to the pandemic, in their seminal book *The 100-Year Life*³ published in 2016, Lynda Gratton and Andrew Scott referred to the future need for many to work into their 70s, suggesting that this means reskilling and relearning, rather than brushing up on knowledge. Whatever pans out in the future, we are starting to see people adopt a more individualistic approach to how they allocate time to work, play and retraining, in some cases facilitated by the additional flexibility and routes to market that the internet has opened up.

So one thing we can say with some degree of certainty, is that the three-stage approach to working lives, and its clearly demarcated accumulation and decumulation phases, are for many already an anachronism, as we increasingly move towards a multi-stage approach that will, in many cases, require variable income needs over considerable periods of time. Of course, it will be different for each individual; some will receive inheritances, some will choose to support their grown-up children (for example, where their children are still struggling to get on the housing ladder in their 30s and 40s), some will need to give care to elderly relatives, and some of course will need care for themselves. But overall, the concept of a traditional retirement is, we suggest, in retreat.

At the same time, governments all over the world are struggling to maintain the same level of social security payments for those in later life, especially in countries with a large ageing population, resulting in many governments considering the raising of the state retirement age: another moving variable that will no doubt impact on the overall nature of retirement.



“The three-stage approach to working lives, and its clearly demarcated accumulation and decumulation phases, are for many already an anachronism, as we increasingly move towards a multi-stage approach.”

Context

The changing nature of retirement



In 1950, the average age of exit from the UK labour force of men was 67.2 and the school-leaving age was 15 — a working life of 52 years.⁴ Today, half the population start work at 21 and generally work a maximum of 45 years. In simple terms, this represents several years' lost tax and national insurance revenue while people live longer lives — as the expression goes, something has to give. In the case of the UK, the state retirement age is progressively being raised to 66 by 2020, 67 from 2026 to 2028, and to 68 from 2044 to 2066.

In 2019, the Centre for Social Justice (CSJ) founded by Iain Duncan Smith, the former Work & Pensions Secretary, proposed far steeper increases. It suggested changing the state pension age to 70 by 2028 and to 75 by 2035. At the time of writing, we await the findings from the latest government five-yearly review of the state pension age, ongoing from December 2021 and due to be published in Q1 2023. Despite some evidence of a recent decrease in longevity, we feel it is unlikely that the government will reverse or slow down raises in state pension age, given its need to balance other factors including fiscal sustainability and the current economic context, as well as perceived fairness to both pensioners and the taxpayer.

Interestingly, the pandemic saw a clear move in the other direction towards early retirement, as many over-50s re-evaluated how they spent their time and left the workplace. However, the cost-of-living crisis that followed, along with spiralling inflation and volatile financial markets, seems to be encouraging some retirees to come back into the workplace, as multiple factors force retirees to re-evaluate their finances. According to the Daily Telegraph⁵ a record 174,000 people aged 65 and above re-entered employment in the three months to June 2022, compared to the previous quarter. However, it is not clear whether this is because of receding fears of Covid, rather than building concerns about the cost of living. Whatever the reason, recognition of this is one reason some companies are looking to lure back retirees, as part of a scramble to fill vacancies across the UK. An example is that of fast-food chain McDonalds,⁶ which has just kicked off a recruitment campaign for the over-50s.

Either way, what is becoming clear is that patterns of work, retirement and “unretirement” among the over-50s are changing and variable, and that financial advice for individuals within this cohort in respect of retirement income is not as straightforward as it perhaps once was.

Changes to funding in retirement

As well as changes to the nature of retirement and attitudes towards it, we are also seeing corresponding changes in the ways retirements or partial retirements are being funded.

Consumer considerations

In 2020, consumer research⁷ carried out by the National Centre for Social Research on behalf of the Department for Work & Pensions (DWP) revealed that when thinking about their retirement lifestyle, participants considered:

- Financial security to be able to pay for essentials;
- Financial freedom to enable a lifestyle that was consistent with or better than their current one; and
- The ability to support their adult children.

Beyond these general aspirations, there was little evidence of people giving detailed consideration of the length of their retirement, or their needs beyond the independent phase of later life. In turn, few had thought through the level of income or wealth they might need to support themselves. Instead, participants tended to hold optimistic views of the adequacy of their retirement income, and of their ability and opportunity to work up to their chosen retirement age. They also focused on the independent phase of their retirement, until prompted to consider the longer-term picture. Those that did talk about potential health or social care needs, were influenced mainly by their own current health or the experience of family members.



“Beyond these general aspirations, there was little evidence of people giving detailed consideration of the length of their retirement”

The impact of Pension Freedoms

At the same time as changes linked to longevity, we are starting to grasp the impact of the enactment of the UK Pension Freedoms legislation on attitudes to, and decision-making about, pension pots and retirement income.

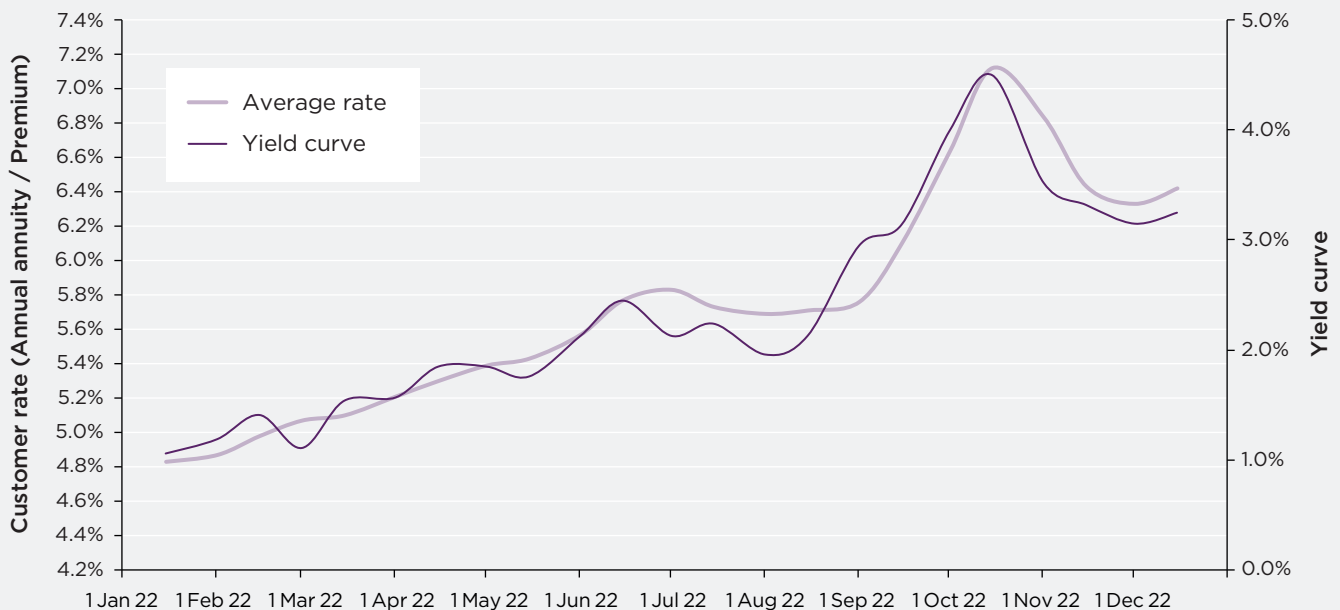
From 6 April 2015, individuals have been able to take flexible payments from their defined contribution (DC) savings, even where the scheme rules did not allow them to do so in the form of a statutory override. Since the introduction of the Pension Freedoms reforms, individuals with DC pensions now have more (potentially complex) options available to them from the new normal minimum pension age (55). The options now available to them are:

- Leaving their pot untouched;
- Taking the whole pot;
- Taking all or some of their tax-free lump sum and deferring income;
- Using phased drawdown;
- Buying an annuity or guaranteed income product;
- Taking out a flexi-access drawdown product;
- Taking a series of lump sums — known as uncrystallised funds pension lump sums (UFPLS); or
- A combination of any of the above.

Since the introduction of Pension Freedoms, annuity rates have declined significantly, while we have witnessed a significant increase in the use of drawdown (both advised and non-advised). More recently we have seen a reversal in annuity rates, and analysis from Legal & General of its own data (see page 9), found that its annuity rates typically increased by around 40% from October 2021 to October 2022, and over 60% since 2016. Legal & General has also estimated nearly one million (990,000) pre-retirees — those aged over 55 and still in work — are considering annuities for the first time, in preparation for their retirement.⁸

In June 2022, a further report⁹ from the National Centre for Social Research, entitled Planning and Preparing for Later Life (PPLL), commissioned by the DWP, was released. Based on a nationally representative survey of 2,655 40–75-year-olds, it was designed to provide evidence on how far individuals are able to make well-informed choices about retirement, given the options available, and whether they will be in a position to enjoy financial security when they retire.

Lifetime Annuities: Average customer rates against yield curve



Source: Legal & General, February 2023

The report highlighted that:

- Nearly one in four (24%) of 40–75-year-olds did not have a private pension and 16% had not yet started saving for retirement. Only 23% of people not yet retired said they had a very good idea of the income they would need in retirement.
- Over half (56%) of 60–65-year-olds with a DC pension had accessed at least one pension. Nearly three in ten people (29%) who had accessed a DC pension, had not received information, advice or guidance from their pension provider, Pension Wise or a financial adviser.
- People’s knowledge of recent changes to the state pension was variable.
- Most people (62%) who had not yet retired, expected to continue in paid work beyond their ideal retirement age. Key factors for helping them to work longer — and fund their retirement — were the ability to work flexibly and the potential to work fewer hours as they approach retirement.
- The self-employed were less likely to have started saving for retirement, less likely to have a pension (65%), and more likely to be reliant on sources of non-pension income to fund retirement.

The changing nature of pensions — using pensions for IHT planning

Since the introduction of Pension Freedoms and the removal of pension funds from the inheritance tax (IHT) net, pensions can now form an important part of estate planning and an IHT mitigation strategy. But for how long?

Given the beneficial IHT treatment of pensions, a logical approach to IHT planning could be to finance all living expenses from non-pension assets, at least until age 75. These assets are part of the estate, so using them up would potentially lessen any future IHT bill. However, consideration needs to be given to the funding of essential expenditure and the suitability of non-pension assets in respect of volatility and liquidity.

More recently, the Institute for Fiscal Studies (IFS) has been calling for this matter to be changed. According to the IFS,¹⁰ *“This results in the bizarre situation where pensions are treated more favourably by the tax system as a vehicle for bequests than they are as a retirement income vehicle.”*

Taking a more holistic approach to all assets

The reliance on non-pension assets to fund retirement, especially housing wealth, reflects a wider trend in taking a more broad-based approach to accumulated assets when considering retirement income, perhaps partially reflecting the variable pathways being taken into retirement, where different assets are used to fund or part-fund periods of time when earned income is suppressed or variable, or to fund unpredictable events. It's perhaps not surprising, therefore, that the FCA intends to link its thematic review with a commitment to further investigative work on lifetime mortgages, to get a clearer understanding of outcomes for consumers in later life.

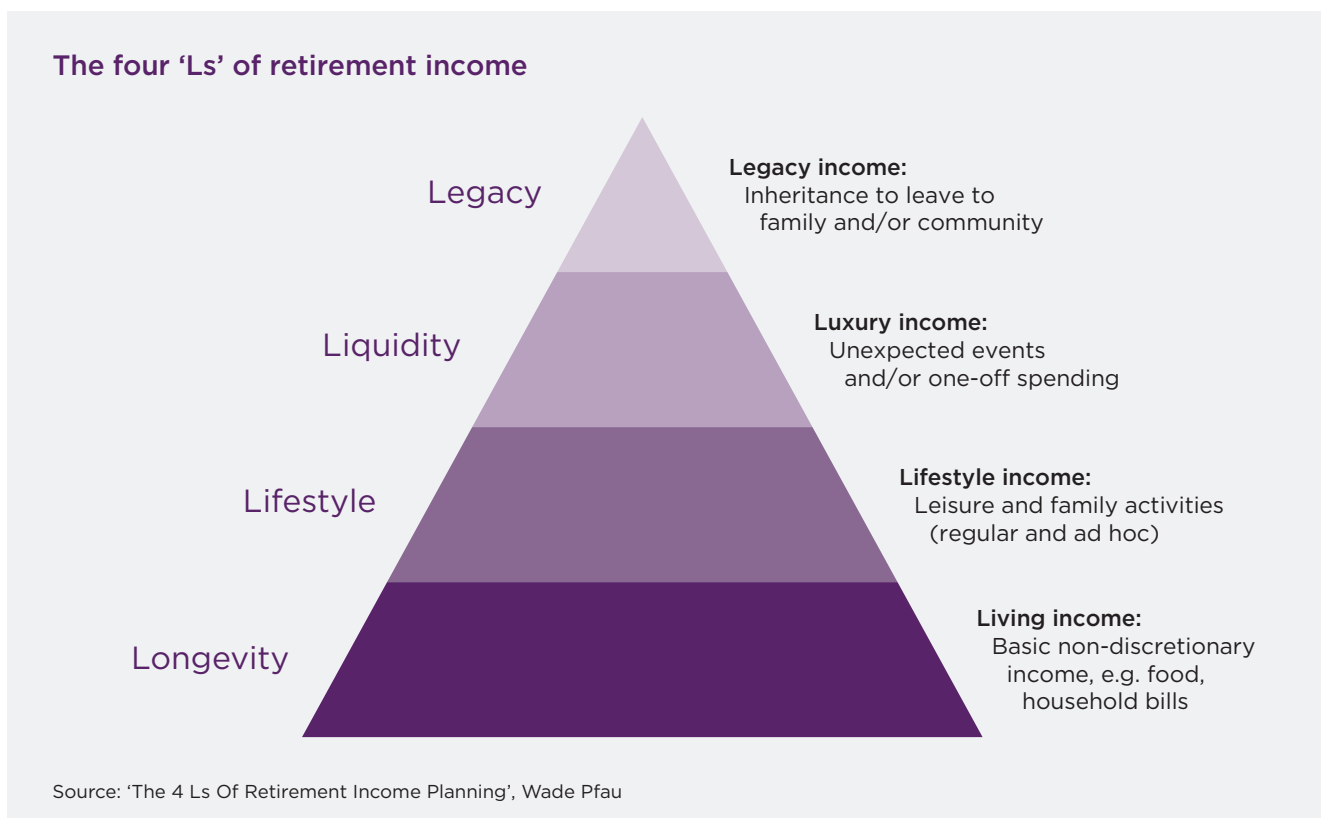
The significant increase in house prices in most parts of the UK in recent years, has likely shifted many people's expectations of the role that property wealth will eventually play in supporting their retirement. That said, since 2000, according to the Pension Policy Institute,¹¹ home ownership has been in decline for all age groups except those aged over 65. If this trend continues, there are likely to

be more people reaching retirement either renting or still paying off their mortgage during retirement. This will increase their living costs, and therefore the amount of income they will require to achieve an acceptable standard of living in retirement.

Whatever assets are used, many people are likely to have multiple assets, multiple pension pots, as well as some level of property wealth, and using these in the right order can make a massive difference to income in terms of stability, tax-efficiency and IHT planning.

Layering of income and the role of guaranteed income

Recently we have seen a growing focus on a layering approach to retirement income, where spending needs are grouped and classified (for example the four 'Ls' illustrated below), and different retirement income products and/or assets are used broadly to provide security of income for essential expenditure and greater flexibility, and the prospect of growth for non-essential expenditure.



Context

Changes to funding in retirement

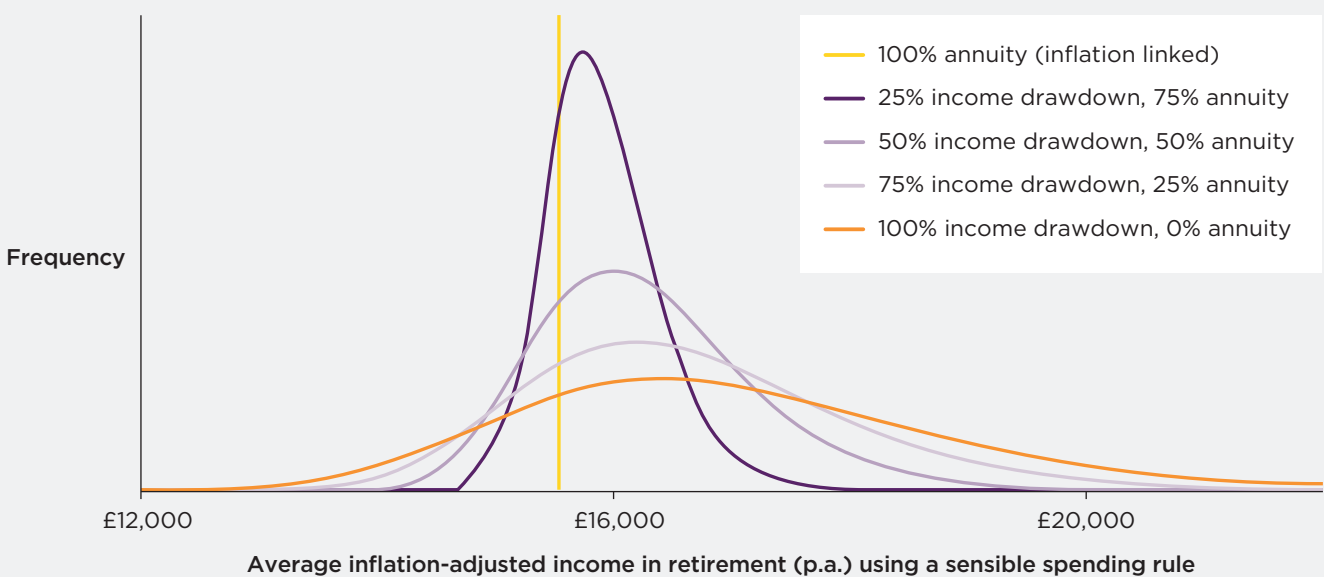
One of the suggested benefits of income layering, is that as clients' essential needs are already covered through, for example, a combination of state pension benefits, annuitisation and perhaps any defined benefit pensions, discretionary expenditure can be met via a robust investment strategy that has the potential to also deliver the long-term growth increasingly needed to adequately fund longer periods in retirement or partial retirement.

Research by Legal & General Investment Management (LGIM) illustrates this point and supports a growing body of empirical evidence that demonstrates how combining annuities with drawdown can often deliver better outcomes. The following chart highlights how integrating varying percentages of both annuity and drawdown can do just that.

The yellow line, or spike, represents the certain income the client could receive if they bought an inflation-linked annuity. The other coloured lines illustrate how partial annuitisation, alongside income drawdown, can increase the prospect of higher levels of income. Increasingly, buying an annuity doesn't have to be an all-or-nothing decision, with partial annuitisation striking a balance many clients may be more comfortable with.

Layering can deliver better customer outcomes

Chances of different retirement outcomes under different strategies



Source: LGIM, December 2020 (annuity based on an inflation linked, single life)

Context

Changes to funding in retirement

In conclusion

The change in the way that individuals are transitioning into retirement, combined with the trend of increasing state pension age, as well as the increased number of options available for converting retirement savings into income since the introduction of Pension Freedoms, means that for many individuals, the choice of (or indeed for some even the relevance of) a specific retirement date, as well as the choice of retirement income products, is no longer a one-off decision, but rather part of a continuous journey.

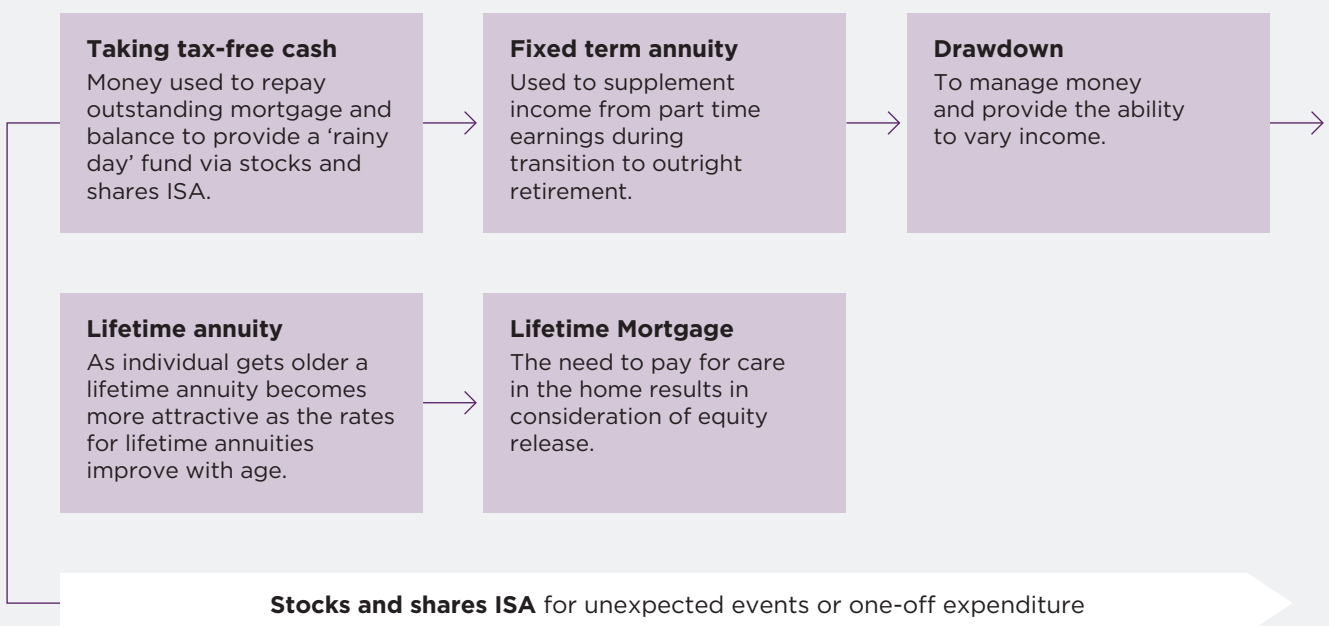
What that journey will look like, will vary considerably from one person to the next, but by way of example and for illustrative purposes only, the following journey sourced from Legal & General's guide, 'Decumulate Differently', highlights the possible use of several products over time.

To read more, you can access the guide here:

→ legalandgeneral.com/adviser/retirement/adviser-academy/decumulate-differently-guide

While it could be argued that if anyone is going to take financial advice at one point in their life, the point at which they are considering transitioning into retirement or partial retirement would most likely be it, advice throughout later life is increasingly needed in the face of changing patterns of later living, retirement and funding.

An example retirement journey



Understanding consumption and income needs in later life

Whichever assets are used to cover essential and discretionary expenditure, understanding patterns of consumption among older ages is an important, if still a relatively under-researched matter, despite a general acceptance that people's spending preferences and thus income requirements in retirement may change with age and that the traditional pattern of spending for many illustrated below may not match their reality.

Retirement spending — Patterns of expenditure

Variations in expenditure during retirement



Full and active life until short or unexpected end



High expenditure in early years, declining with poor health



Small income in early years, then retiring outright, then reducing as health deteriorates



Understanding consumption and income needs in later life

How much is enough?

Perhaps a good starting point when looking at income needs in later life, is to ask the basic question, how much is enough?

Clearly the answer to this question may be changeable, and will certainly be unique to every individual, but an attempt to benchmark a general answer has some inherent value, if only as a starting point. To this end the Pensions and Lifetime Savings Association (PLSA) has developed the Retirement Living Standards,¹² to illustrate what life in retirement looks like at three different levels of lifestyle expenditure, based on what a range of common goods and services would cost for each level.

For a couple, these differing levels of expenditure are illustrated below. Source: PLSA.

You can find out more about the PLSA's Retirement Living Standards by going to its website at:

→ retirementlivingstandards.org.uk

	MINIMUM	MODERATE	COMFORTABLE
Couple	£19,900 a year*	£34,000 a year*	£54,500 a year*
What standard of living could you have?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
House	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
Food	£96 a week on food (including food away from the home).	£127 a week on food (including food away from the home).	£238 a week on food (including food away from the home).
Transport	No car.	3-year old car replaced every 10 years.	Two cars, each replaced every five years.
Holidays and leisure	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
Clothing and personal	£460 per person for clothing and footwear each year.	£791 per person for clothing and footwear each year.	Up to £1,300 per person for clothing and footwear each year.
Helping others	£20 for each birthday present.	£34 for each birthday present.	£56 for each birthday present.

* These amounts would fund this lifestyle for people living outside London. See 'The Detail' on the the Retirement Living Standards website for more information.

Understanding consumption and income needs in later life

Patterns of consumption

When it comes to the shape of spending and consumption, everyone's journey will be unique; but one memorable way of breaking down the customer journey in retirement into bite-sized chunks, that we saw in a recent social media posting, was as follows and represents a good starting point for discussion:

- **Go-Go** — Early aspirational spending years, for example aged 60–70
- **Go-Slow** — Memory making and giving years, for example aged 70–80
- **No-Go** — Heating, eating and care years, for example aged 80+

Changing shape of income needs

Of course, recent increases in inflation have reinforced an understanding that our income needs may be difficult to predict, and are likely to change to some extent, as we transition into later life.

A recent report from the The Institute for Fiscal Studies (IFS) (May 2022) titled 'How does spending change through retirement?'¹³ throws some light on the matter, by examining the spending patterns of current retirees in the UK using data from the Living Costs and Food Survey, from 2006 to 2018, which allows us to get a detailed picture of retired households' spending patterns.

Key findings from the report include:

- On average, retirees' total household spending per person remains relatively constant in real terms through retirement, increasing slightly at ages up to about age 80 and remaining flat or falling thereafter.
- By contrast, average household income per person for retirees aged 62 and older is more clearly increasing in real (CPI-adjusted) terms, as people age. This is driven by private pension incomes increasing faster than the Consumer Prices Index (CPI), and by increasing numbers of people receiving the state pension and disability benefits as they age.
- In conjunction with relatively constant spending, increasing incomes mean that more people save, and save at higher rates, as they age.

- The composition of spending changes as people age, with per-person spending on food inside the home and on motoring falling steadily, spending on holidays increasing up to age 80 and then decreasing, and spending on household services (which includes spending on home help and domestic cleaning) and household bills increasing in the later years of retirement.
- There are differences in spending patterns across different types of household. Households with above-average incomes for their age and birth cohort have an increasing profile of spending in their 60s and 70s (for example, increasing by 7% from ages 67 to 75 for the 1939–43 birth cohort), with spending falling slightly for those in their 80s. On the other hand, those with incomes below median have a slightly declining age profile of spending in their 60s (with the 1939–43 birth cohort seeing a fall of 1% from 67 to 75) and spending remains flat at older ages.
- These results suggest that, on average, in order to have an income profile that would match the age profile of spending through retirement seen among earlier cohorts, people should aim for a total income profile that is roughly constant in real (CPI-adjusted) terms through retirement. Given that policy is for the state pension to rise faster than prices over time, this suggests that, at least among current retirees, a declining profile of income from private sources might, on average, be appropriate — and particularly so for those with lower incomes, who are more reliant on the state pension in retirement. However, for those largely reliant on private pension income, a non-index-linked annuity would leave them more exposed to inflation, and they may not be able to maintain the level of spending they would like in retirement.
- The death of one member of a couple will affect per-person spending of the surviving partner, as many shared expenditures, such as housing costs, will not fall when a partner dies.

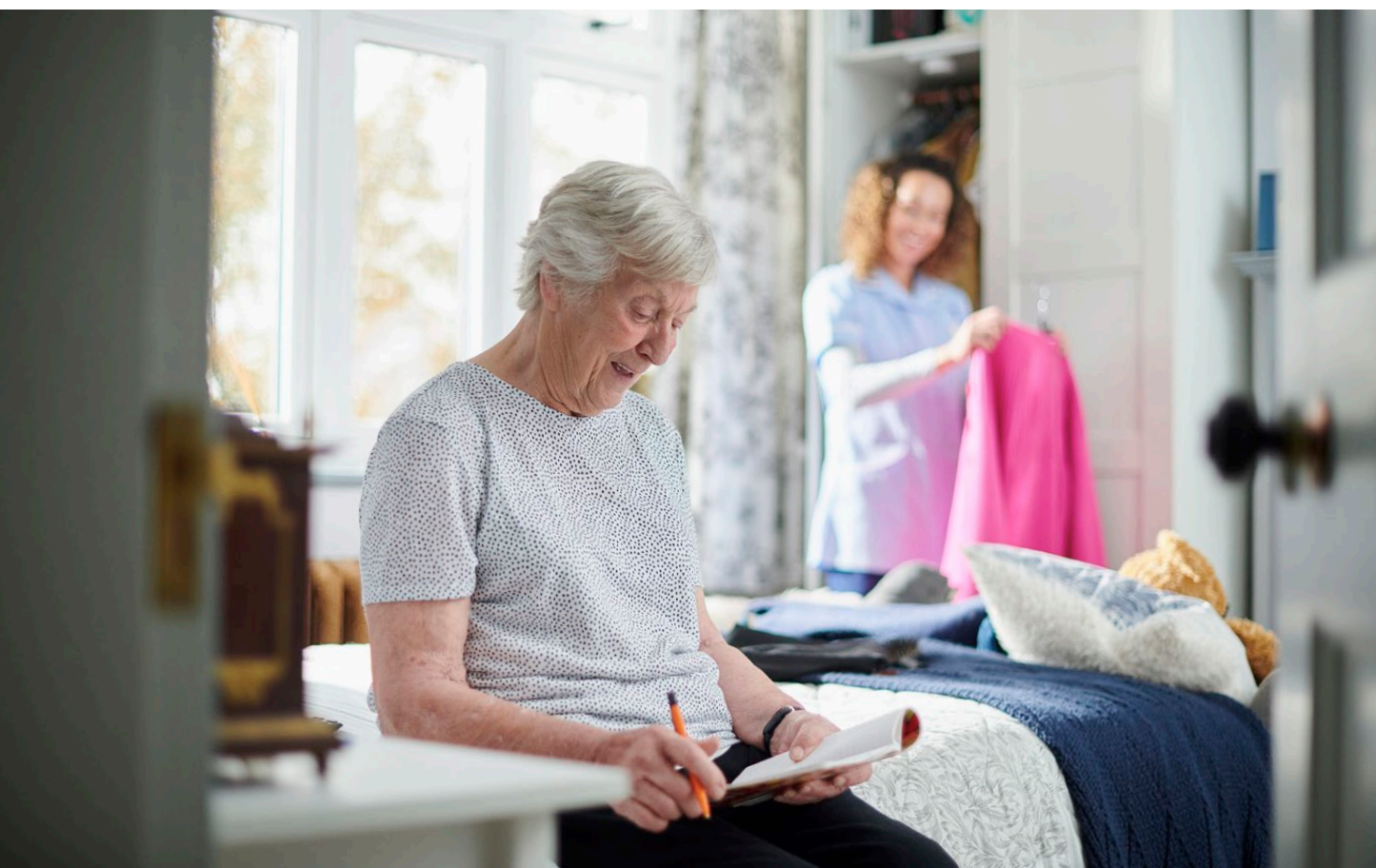
If the spending patterns of current retirees are a good guide to how people in the future will want to spend, current savers might be best advised not to plan their retirement saving on the basis that their overall spending will fall sharply during retirement.

Factoring in predictable and unpredictable events

As well as planning for essential and discretionary spending, further consideration needs to be given to both predictable and unpredictable events. While not an exhaustive list, these include:

- Inflation;
- Significant event-based vulnerabilities such as divorce or bereavement;
- Changes in health and the extent of disability;
- Changes in cognition, from mild cognitive impairment through to dementia;
- Sudden and unexpected changes within a family where financial support is needed (e.g. a child divorcing);
- The funding of social care.

When it comes to social care, most indicators suggest that there is little evidence that many of us give the funding of care the consideration it deserves, given the catastrophic costs involved for some. So, when it comes to understanding income needs in later life and indeed simply enjoying retirement, we would contend that having a plan for care funding in place is a core consideration, when it comes to making financial decisions about retirement, whatever shape and form that retirement might take.



The FCA’s Consumer Duty

While the Consumer Duty is undoubtedly a gauntlet laid at the feet of all financial services firms by the regulator, the CDA sees the Consumer Duty as a huge opportunity to ensure firms think beyond simple compliance with a rule book, and take a fresh look at their processes, services and target markets, to ensure not only that clients are continuing to receive good outcomes, but that firms can demonstrate unequivocally to themselves as well as the regulator that this is what they are delivering.

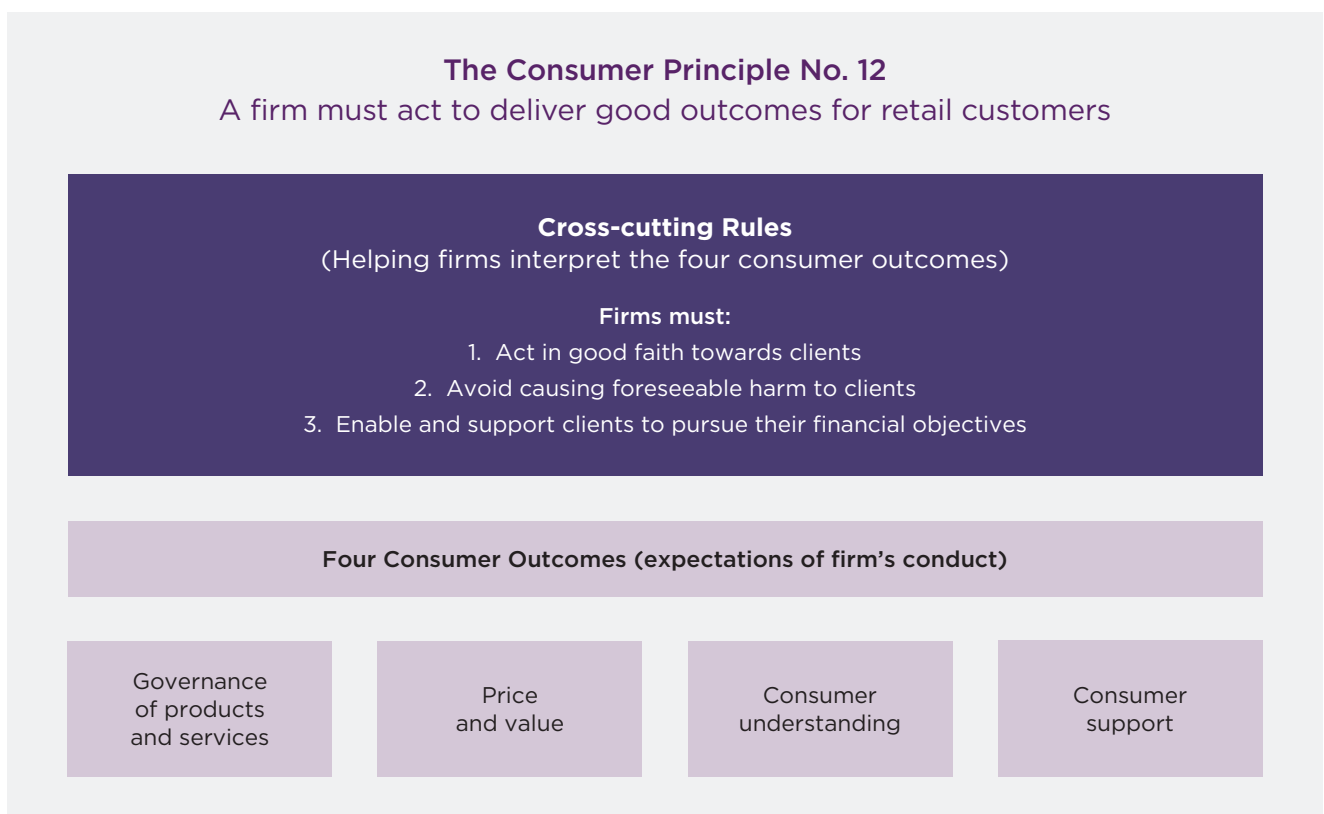
The nuts and bolts

By now, firms should be familiar with the structure and focus of the Consumer Duty, including its cross-cutting rules and the regulator’s expectations of firms, summarised within the four consumer outcomes illustrated below.

The cross-cutting rules – beyond “good faith”

When dealing with the retirement income target market, firms will need to help clients navigate the many challenges presented by uncertainties about changing income requirements and patterns of expenditure, matching funding, short- and longer-term investment returns, risk, inflationary trends and longevity. With reference to the Consumer Duty cross-cutting rules, the increasing complexity of retirement presents many potential foreseeable harms, some of which will be in conflict – for example the risk of running out of money too soon versus the need to access increasing levels of income, especially in the face of ongoing inflationary and cost-of-living pressures.

Specific products such as drawdown contain risks that need to be managed to avoid foreseeable harm, involving an analysis of the key risks and the plans for dealing with those risks, including indications of risk and strategies should risks crystallise.



The FCA's Consumer Duty

For example, in the case of sequencing risk, plans might include:

- A portfolio designed to reduce volatility;
- Recommendation for natural income to provide all/part of a client's income;
- Use of bucket strategy to enable income to be paid from less volatile fund/s within the portfolio;
- An evaluation of recommended fund's sequencing risk profile.

Identification of sequencing risk might include markets falling by a pre-determined amount and/or volatility of portfolio exceeding expected boundaries. Strategies should risks crystallise, might include temporarily taking income from other resources outside drawdown or from a cash buffer within (if available).

The current taxation rules when it comes to retirement income also present some risk, especially for those considering returning to work. The annual allowance of just £4,000 per year (including tax relief) and for higher earners, the tapered Annual Allowance, are seen by many as acting as a deterrent, added to which, the Lifetime Allowance is becoming easier to breach, given that it has been frozen at £1.073m until April 2026 and in nominal terms has already almost halved over the past 11 years.

At the same time, the complexity of potential retirement income funding in terms of timing and source, means the challenge of enabling and supporting clients to pursue their financial objectives, for some will be anything but a straightforward matter.

A shift in focus — from TCF to outcomes

The four consumer outcomes that are an integral part of the Consumer Duty, are a draft set of rules and guidance that sets more detailed expectations for firms' conduct in respect of vital elements of the firm-consumer relationship.

The outcomes are as follows:

Products and Services — Ensuring the product's design meets customers' needs, characteristics and objectives in the identified targeted market. This outcome primarily seeks to build on the existing product governance requirements for firms.

Price and Value — Ensuring firms assess whether their products or services provide fair value to a customer, taking into account all parts of the value chain (i.e. product, platform, fund and advice). This aims to address the issue of firms offering products or services that are poor value, thereby potentially leading to foreseeable harm.

Consumer Understanding — Ensuring firms' communications enable and support customer understanding of their products and services, and enable customers to make informed decisions. This means:

- Equipping customers to make effective decisions;
- Adopting good practice in communications;
- Ensuring information is provided on a timely basis;
- Effective communication channel is used;
- Tailoring communications; and
- Testing communications to support understanding.

Consumer Support — Ensuring firms provide the level of support (throughout the relationship) that meets customers' needs when they need it and allows them to pursue their financial objectives. This includes:

- Providing support that meets the needs of customers/doesn't disadvantage particular groups of customers, including those with characteristics of vulnerability;
- Offering different channels of support; and
- Data monitoring.

Across all outcomes there is an expectation that prior to 31 July 2023:

- Firms review their current approaches to, if necessary, bring them in line with the Consumer Duty requirements.
- Firms ensure they can robustly evidence outcomes.
- Outcomes are reviewed and monitored on an ongoing basis.
- Any issues identified are remedied or mitigated.

Challenge and opportunity

This shift in focus away from firms following principles and requirements such as Treating Customers Fairly (TCF) towards delivering particular outcomes, reflects a change in mindset by the FCA. For the vast majority of advice and financial planning firms, delivering good consumer outcomes has always been their *raison d'être*, so for them the challenge will be more about an ability to demonstrate and/or evidence that good outcomes are achieved via data collection and interpretation, and where occasionally bad outcomes might be identified, establishing what the root cause is so that remedial actions can be taken. The old adage of, "If it's not written down, it didn't happen," has never been more apt.

A root-and-branch appraisal of the needs of target markets, current services and processes, as well as increased engagement, will at the same time present a real opportunity to improve and enhance day-to-day practices, deepen relationships with customers, and ultimately underpin firms' long-term profitability by helping to improve and sustain overall business performance.

For what we sense is likely to be a minority, it may require a similar recalibration to that of the regulator to consistently meet its higher expectations of firms, as the regulator seeks to make lasting changes to both culture and behaviour across UK financial services.

Further considerations

The Consumer Duty has introduced a number of concepts, some subjective, that firms need to assess and adopt a position on, when implementing the Duty. These include:

Fair value

The FCA states that, "distributors do have an important role in products getting to market and so must ensure that their or other charges across the chain do not cumulatively result in the product ceasing to provide fair value" (PS22/9, page 47). Of course, fair value is more than just price, so it's perhaps understandable that the FCA has avoided defining fair value, although it has stated that consideration should be given to "unsuitable features that can lead to foreseeable harm or frustrate the customer's use of the product or service, or poor communications and consumer support" (FG22/5, 7.2).



The FCA has also referred to the fact that issues such as transparency and the ability of clients to easily switch and/or exit a product or service are more likely to offer fair value.

When it comes to retirement income, the regulator has identified a specific area of concern in ensuring that ongoing fees are aligned to ongoing services when it comes to price, frequency and value.

In the absence of absolute clarity from the FCA, defining value will naturally differ on a firm-by-firm basis, but could be summarised by the question, "Is the benefit the client is receiving reflected in the price they are paying?" or "Is there a reasonable relationship between the price the client pays and the benefits they get?" Ultimately, firms need to be able to demonstrate this, which will involve working out what the cost of providing advice over the life cycle of the product or service is, and what is the value to clients over time. They will need to document how the prices of products or services provide fair value to customers in the target market. Firms will need to be flexible, yet consistent, in their assessments, when it comes to the different pricing and service models within their propositions.

Added-value services

Additional non-financial benefits offered alongside products and services can, of course, help provide or add to fair value (something the protection sector has been doing for some time). Firms might consider value-added benefits, for example initially targeted at those in vulnerable circumstances using the FCA's "life events" driver of vulnerability — including additional support for those with caring responsibilities and care needs, those going through relationship breakdowns, or those in bereavement.



Reasonableness

In respect of the cross-cutting rules, the FCA refers to firms taking "all reasonable steps" and in so doing sets a high bar to be met by firms (for context, the Senior Managers and Certification Regime (SM&CR) requires only that managers take "reasonable" steps to fulfil their responsibilities). The FCA expects rules and guidance to be interpreted in line with the standard that could reasonably be expected of "a prudent firm", namely:

- Carrying on the same activity in relation to the same product or service;
- With the necessary understanding of the needs and characteristics of its customers.

Although the concept of reasonableness exists in current FCA requirements, the subjectivity of applying it to a broad range of interconnected aspects of a firm's activities may prove a challenge for firms. As the Consumer Duty is underpinned by the concept of reasonableness, firms are responsible for addressing the risk of harm only when it is reasonably foreseeable at the time, considering what a firm knows, or could be reasonably expected to have known. This will depend in part on the information the firm collects as part of its business, and which in turn will depend on the scale, service offering and capabilities of the firm, but the FCA expects "all firms to collect enough information to be able to act to avoid causing foreseeable harm" which in itself opens up a whole new range of considerations.

Behavioural bias

Consumer behavioural biases are referenced throughout the Consumer Duty, requiring firms to understand how such biases can contribute to consumer harm, to be able to identify when and where this might happen, and to respond accordingly. This understanding needs to be applied to all customer interactions, to identify where they may be an impediment to good outcomes.

Of course, different consumer journeys and demographics present different risks and behavioural biases, which need to be addressed; for example present bias, loss aversion, decision-making bias, inertia, information asymmetry and framing.

In the case of information asymmetry, or an imbalance between two parties in their knowledge of relevant factors and details, language is particularly significant when it comes to the retirement income market. Whether there is any truth in the suggestion that when George Osborne stated in the House of Commons while delivering the 2014 Budget that, "No-one will have to buy an annuity any more," the most Googled question over the subsequent 24 hours was "What's an annuity?", there can be little doubt that terminology such as "uncrystallised funds pension lump sum" does little to increase understanding among the general public.

In the case of the "framing" of retirement income options, FCA research¹⁴ revealed that when presented as a form of insurance, 66% of clients preferred an annuity to a savings account. In contrast, when presented as an investment product, only 17% chose it. The results show that presenting

The FCA's Consumer Duty

annuities and other drawdown strategies in different frames can significantly alter an individual's relative preferences for these retirement income products, so care needs to be taken that unconscious framing doesn't result in sub-optimal outcomes.

Vulnerability

Vulnerability is also heavily referenced throughout the FCA's Final Guidance on the Consumer Duty, within which it confirms the ongoing relevance, compatibility and overlap with its existing guidance on the Fair Treatment of Vulnerable Customers (FG21/1). Put simply, the Consumer Duty raises the standard of care afforded to all consumers, while FG21/1 sets out what firms should do to ensure that customers in vulnerable circumstances experience outcomes at least as good as those for other consumers. FG21/1 therefore remains relevant for firms, who should refer to it for further information on the regulator's expectations in respect of those in vulnerable circumstances. To quote the FCA directly:

"Where the Duty rules specifically reference customers with characteristics of vulnerability, they do so in a way that is consistent with and informed by their guidance on the fair treatment of vulnerable customers. Consumers in vulnerable circumstances may have additional needs or be at greater risk of harm if things go wrong. For this reason, the Duty makes explicit reference to firms paying attention to the needs of customers with characteristics of vulnerability."

(FCA FG22/5)

It's worth pointing out that within FG21/1, the FCA considers "retirement" itself to be a characteristic of vulnerability, which means that when it comes to Consumer Understanding and Support, clients may well have different or additional support needs that will need to be recognised and accommodated.

Proportionality

The good news is the regulator has made it clear that it will adopt a proportionate approach when assessing firms' delivery against the Consumer Duty. This approach will consider a number of factors, including:

1. The nature of the products or services delivered. For example, higher-risk products are likely to attract more attention than less risky ones.
2. The type of customer. For example, where consumers in the target market are more likely to display aspects of vulnerability, the regulator will

expect firms to take extra care. This is important, given the increase in vulnerable circumstances that may befall some older clients, such as those predictable and unpredictable events detailed on page 16.

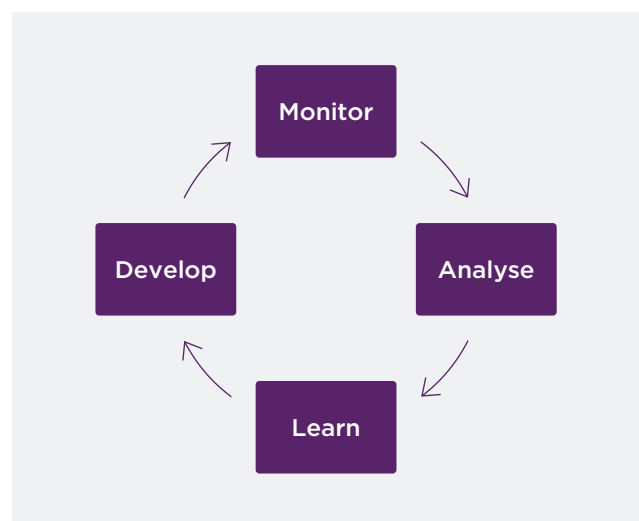
3. The size, business model and capabilities of individual firms.

So, while all firms should focus on good outcomes for their customers, the approach that is adopted for testing and monitoring is expected to vary according to the size and complexity of a firm.

An iterative process

Viewing the Consumer Duty as a journey, rather than a destination, underlines the reality that consumer needs evolve, and for firms the Consumer Duty will be a process of continuing self-examination and learning, with implementation as an iterative process.

During the build-up to the Consumer Duty, the FCA has referenced a simple practice model developed as part of its guidance to customers in vulnerable circumstances, that is a useful reminder that the Consumer Duty is a journey, namely, the need to monitor (via gap analysis), analyse, learn from the analysis and make changes as appropriate before the cycle starts again.





The bottom line

In summary, the FCA will be looking for assurance that firms have engaged with the substance of the Consumer Duty, and will deliver against its requirements in a thoughtful and proportionate manner by 31 July 2023. Perhaps the biggest challenges this will bring for most firms, are the collection and analysis of appropriate data as well as making sure everything is documented clearly, so they are able to respond positively in the face of any robust challenge from the regulator.

To quote Therese Chambers, Director of Consumer Investments at the FCA, speaking at FTAdviser's Financial Advice Forum on 22 September 2022, *"We don't expect perfection in your first pass at this, but we do expect you to take your approach to implementation seriously, and that is what we will be looking at in the first instance."*

The remaining section of this document focuses on the four outcomes and considerations for those firms that have identified those transitioning into or at retirement as a relevant target market.

The Consumer Duty and the retirement income target market

The key to good product and service governance within the scope of the Consumer Duty is appropriate establishment and understanding of the characteristics of target markets (at each stage of the distribution chain), and then robust oversight of the distribution of the products and services being sold.

It might seem like an obvious statement, but it is important firms are able to demonstrate a clear link between the target market, the needs of consumers within the target market, and the products and services offered. This is at the core of the FCA's Product Intervention and Product Governance sourcebook (commonly known as PROD) rules and the Consumer Duty pillar on products and services. Firms might wish to consider the following four steps.

Step 1. Establishing the target market and segmentation

When it comes to the establishment of a target market, while there is no prescribed way of doing so, every firm is ultimately responsible for its approach in determining its target market(s). That said, it needs to be done at a sufficient level of granularity, so that typical consumer needs can be identified and met via the range of products and services being offered.

One way to segment the retirement income target market, could be to reflect the changing nature of retirement and the varying needs of:

1. Those aged 55 plus who have no intention of retiring in terms of paid work until forced to do so (perhaps due to ill health or lack of opportunity)
2. Those transitioning into retirement or semi-retirement (from age 55 onwards)
3. Those in active retirement (for example, aged 55-75)
4. Those in more passive retirement (aged 75+)

Another way might be to segment in terms of initial approach to income needs, for example:

1. **Flex first, fix later** — The need for flexible income via drawdown initially, and then a scheduled or automatic switch to an annuity at a later date, to benefit from higher rates and mortality cross-subsidy.
2. **Secure some, stay supple** — For those looking to reduce their working hours, or stop working altogether, buy an annuity. When combined with the state pension, the annuity covers their essential expenditure, and any remaining funds can be placed in drawdown.
3. **Guarantee all the way** — For those perhaps older clients whose income requirements are fairly settled, enhanced annuity rates become available, and the resultant annuity income is sufficient to meet the client's needs.
4. **PCLS* and zero** — For those still working who want to take tax-free cash only, perhaps to supplement income either directly or via an annuity.

* PCLS: Pension Commencement Lump Sum.

Whichever way is chosen, firms need to segment to a level of granularity needed to identify the (changing) needs of typical consumers in each segment, and the products and services that meet those needs, perform as expected and don't cause foreseeable harm, especially to those within the overall retirement target market, where many will be in vulnerable circumstances.

Step 2. Establish client needs

When it comes to retirement income, clients will have a range of potential needs including (but not exclusively):

- Targeted income levels
- Income sustainability
- Income flexibility
- Income maximisation
- Capital protection
- Risk management
- Use of non-pension assets
- Death benefits
- Tax mitigation
- More or less intensive service requirements

In addition, as previously highlighted, different attitudes to predictable/planned and unpredictable events, such as the need to plan for and fund care, as well as varying attitudes to intergenerational wealth transfer, will need to be considered in the light of the cross-cutting rule, to enable and support clients to pursue their (wider) financial objectives.

Of course, firms need to consider each individual customer they advise, when it comes to the suitability of their products and services in meeting specific needs.

Step 3. Mapping the customer journey

Customer journeys are all interactions an individual has with a firm in relation to buying and using products and services, including outsourced services. The importance of mapping customer journeys as far as the Consumer Duty is concerned, reflects the fact that any customer interaction has the potential to result in harm.

At all points of interaction along the customer segment retirement journey, consideration should be given to meeting the requirements of the cross-cutting rules and the four outcomes, how behavioural biases might influence client decision-making in ways that cause harm or facilitate good outcomes, and meeting the needs of all clients including those in vulnerable circumstances.

Step 4. Documenting the service proposition

This involves documenting the service proposition for each particular client segment, including a schedule of products and services for each.



“

“At all points along the customer segment retirement journey, consideration should be given to meeting the requirements of the cross-cutting rules and the four outcomes”

Delivering good outcomes

Having established your retirement income target market, segmented it, established client needs, mapped the customer journey, and documented the product and service proposition, the next step is to define what a good outcome looks like.

For the retirement income target market as a whole, this might include, by way of examples:

- Essential expenditure covered via sources of guaranteed and sustainable income;
- Discretionary expenditure covered by sufficient and sustainable sources of flexible income;
- Continuing investment and savings accumulation to achieve levels of required income and expenditure or as a longevity hedge;
- The maximisation of death benefits;
- The securing of enhanced product terms (e.g. enhanced annuities) wherever applicable;
- The avoidance of foreseeable harm, for example unnecessary levels of taxation or running out of money;
- The funding of predictable and unpredictable events, for example the need to fund care; and
- Happy clients as measured by a lack of complaints and ongoing feedback.

This should be refined for each sub-segment identified, and will of course be client-specific when it comes to suitability.

Firms might then look to each of the four outcomes (see below) when it comes to setting detailed expectations of conduct, paying attention to the cross-cutting rules at the same time.

Outcome 1. Products and Services

When it comes to retirement income, given the increasing lack of a clear demarcation between accumulation and decumulation phases for some, the increasing use of multiple assets and income sources to “layer” funding in retirement, and the advantages in using different products to fund multiple types of income (essential, discretionary, etc), the scope of products and services linked to retirement income is increasingly diverse.

That said, meeting the requirement of this outcome should be relatively straightforward for most firms already complying with the PROD rules (compliance with which should be evidenced). It requires firms to ensure advice services meet the needs, characteristics and objectives of clients in the target market (e.g. retirement income) — for most firms this is about documenting what you already know and in doing so demonstrating a clear link between the target market, their needs and the products and services the firm offers.

Some firms advising in the retirement income space might, however, need to consider a more active and broader risk management approach to decumulation, especially when using multiple assets and income sources to ensure that the overall level of risk is both appropriate, and proactively managed to help facilitate a smooth transition into full-time retirement. When it comes to retirement income products, reference to the FCA: Retirement income market data 2021/22, suggests that in the six-month period from October 2021 to March 2022, pension pots being accessed for the first time were split 56% full cash withdrawals, 30% drawdown, 9% annuities and 6% UFPLS.

Other products in play used to fund retirement income might typically include savings, investments, equity release and other forms of later life lending, and in some cases even possible or likely pay-outs from protection policies or anticipated inheritances.

Services will typically include both Centralised Investment Propositions/Centralised Retirement Propositions, platforms and discretionary fund managers (DFMs) requiring due diligence.

Regardless of the nature of products and services in scope, firms need to ensure good outcomes, by asking of themselves key questions linked to their target market(s); a suggested list of these, from FCA FG22/5, can be found in Appendix A on page 33.

Reviewing your firm's retirement income advice processes and a proportionate number of advice files, will help ensure you're in a good position for the work the FCA will be conducting in its thematic review. The results of any process or advice file reviews will provide useful management information (MI) and should give reassurance that clients are receiving good outcomes. In turn, this MI will also be a helpful point of reference, as you get ready to implement the Consumer Duty.



Sample question and possible response

What data and management information are firms using to monitor whether products and services continue to meet the needs of customers and contribute to good consumer outcomes?

How and when the risks inherent in drawdown are being assessed and dealt with, including longevity risk, inflation risk, investment shortfall risk, sequencing of return risk and any change in circumstances. Here, relevant management information might include:

1. The number of clients in drawdown
2. The number of clients where their objectives as detailed within the suitability report are not being met
3. The reasons these objectives are not being met
4. How these have been remedied and any changes needed as a result to a firm's Centralised Retirement Proposition



Sample question and possible response

Are firms satisfied that their products and services are well designed to meet the needs of consumers in the target market, and perform as expected? What testing has been conducted?

This might involve firms seeking feedback from their clients at the first anniversary of a retirement income product purchase, and where ongoing services are being delivered, at regular reviews.

When it comes to drawdown, in the past bonds have acted as a counterbalance when equities suffered negative returns. However, this has not been the case lately, as both asset classes have fallen together in price terms and are unlikely to have performed as expected, so to what extent do firms need to test and re-approach traditional portfolio construction?



Sample question and possible response

Are firms aware of products or services that have features that could risk harm for groups of customers with characteristics of vulnerability. What changes to the design of its products and services is it making as a result?

The removal of the need to move from drawdown to an annuity at age 75, now means increased numbers of people potentially remain in drawdown during periods when unhealthy cognitive decline is more likely, while still needing to make decisions about risk tolerance, levels of withdrawal and changes to capacity for loss.

Ensuring that clients' ongoing decision-making is supported by the establishment of Lasting Powers of Attorney must now, it could be argued, be a key consideration in avoiding foreseeable harm.

Outcome 2. Price and Value

This outcome concerns ensuring firms assess whether their products or services provide fair value to a customer. This aims to address the issue of firms offering products or services that are poor value, thereby potentially leading to foreseeable harm.

Firms should carry out a value assessment of their standard retirement advice services. This could include:

1. Benchmarking against industry averages
2. Seeking feedback directly from clients as evidence of fair value
3. Working out the actual cost of delivering their service(s) (via a template of all major aspects of services and allocated costs, e.g. fact find, initial meeting, research and analysis, report production and execution of recommendations).

Firms need to then consider the overall costs across all fees in the distribution chain, to sense check if the overall charges are reasonable and still provide value for money (e.g. advice fees + product fees + platform fees + DFM fees + investment management fees) and should document why they believe the price is fair.

Delivering value for money against a background of significant inflation and potentially shrinking money purchase pension pots, will require firms to look for efficiencies in the advice process, and linked to that the effective use of technology – something which should come easier to future generations of retirees compared with past generations prior to the baby boom generation.

Finally, the FCA has warned advisers it will pay extra attention to how it deals with the price and value aspect of its incoming consumer duty rules, repeating concerns that “some clients of financial advisers may be getting an ongoing service that does not represent value for money”. The need for such ongoing services when it comes to retirement income is increasingly clear, given the nature of the retirement journey for many.

See Appendix A on page 33 for a summary of key FCA suggested questions for this particular outcome.



Sample question and possible response

Can the firm demonstrate that its products and services are fair value for different groups of consumers, including those in vulnerable circumstances or with protected characteristics?

Some groups of consumers may not be suitable for a firm's client proposition, for example those with small pension pots where it may not be cost-effective or fair value to pay a firm's minimum advice fee. For those in poor health, does a firm's standard service ensure all clients are underwritten to ensure enhanced terms for annuities (and equity release)?

Outcome 3. Consumer Understanding

This outcome requires firms to communicate information in a way that is clear, fair and not misleading, and give customers the necessary information to support and enable them to make informed decisions about products and services.

It goes further than existing Principle 7 (*A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading*) because it specifically requires communications to be tailored considering the characteristics of the customers intended to receive the communication, including any characteristics of vulnerability; the complexity of products; the communication channel used; and the role of the firm.

It also requires firms for the first time to determine the extent of customer testing they need to undertake in order to ensure customers understand the information provided before sale, at the point of sale and thereafter.

When interacting directly with a customer on a one-to-one basis, and where appropriate, they must ask if the customer has understood and whether they have any questions. This outcome also involves firms demonstrating consumer understanding through testing and ongoing review and improvement. Information must be provided to customers at the right time and in a way the particular targeted customers can understand.

The FCA, through its webinar programme and other communications, has so far made it clear that it sees customer contact as crucial to sense checking the outcomes a firm believes it is delivering. Testing such things as quality of disclosures, advice processes including suitability reporting, client onboarding, financial promotions and information not relayed during the customer journey, can provide valuable insights through which to improve customer understanding.

Clear and engaging communications will be vital in meeting the new Consumer Duty, and here the FCA provides examples of what it sees as good practice (FG22/5 8.13) including:

- **Layering** — This is where key information is provided upfront, with cross-references or links to further detail, and can be particularly effective online.
- **Engaging** — Communications should be designed in a way that encourages consumers to engage with them. This is particularly important where the communication is prompting the consumer to act.
- **Relevant** — Firms should consider the appropriate level of detail for each communication. They should take into account what customers need to know, the kind of decision to be made by their recipients where applicable, and where confusion could arise.
- **Simple** — Effective communications will present information in a logical manner. Where possible, jargon and technical terms should be avoided. Where the use of jargon or technical terms is unavoidable, firms should explain the meaning of key terms in plain and intelligible language that consumers are likely to understand.
- **Well timed** — Firms should communicate with customers in a timely manner and at appropriate touchpoints throughout the product lifecycle, such as at contractual breakpoints, giving them an appropriate opportunity to take in the information and, where relevant, assess their options.



Furthermore, the FCA is clear that firms will need to have systems in place to test and monitor the impact of communications on consumer understanding, to help inform a continuous cycle of improvement. This means advisers and providers will need to ensure that communications are being seen by the consumer, and that consumers understand and can act on those communications.

One example of consumer misunderstanding is illustrated through recent research by Legal & General, suggesting misconceptions are still high, as 44% of people it surveyed want a guaranteed income in retirement, but less than half of this percentage recognised an annuity as a potential solution. Lorna Shah, Managing Director, Legal & General Retail Retirement, commented, *“Despite annuities becoming more popular, we still need more awareness of the flexibility of fixed-term annuities and the benefits of enhanced annuities... our research shows there’s still a lack of understanding about what an annuity is and what it can offer.”*

One way consumer understanding can be enhanced is again via technology, and a company called Money Alive (moneyalive.co.uk) provides a clear example via its video box sets, which can do some of the heavy lifting when it comes to client understanding, covering retirement income topics including Pension Freedoms, flexible income, drawdown reviews and guaranteed income. These videos can be used prior to client meetings, to ensure client understanding, as the technology tracks and records the underlying client journey through each segment of the video, and provides reported evidence of understanding via user declarations.

The following box summarises the content coverage for its box set for guaranteed income.



Guaranteed income box set

1. Guide to Guaranteed Income – 6 mins

A guide to using your pension pot to provide a guaranteed retirement income for life by purchasing an annuity.

2. Inflation – 4 mins

How can I maintain the real buying power of my annuity income?

3. Joint life annuity – 3 mins

A guide to using your pension pot to provide a guaranteed retirement income for life by purchasing an annuity.

4. Guaranteed death benefits – 4 mins

How can I avoid getting poor value for money from my annuity if I die earlier than expected?

5. Health & lifestyle – 3 mins

Could my current health and lifestyle mean I qualify for a higher annuity income?

6. Guaranteed annuity rates – 2 mins

Does my current pension policy include valuable income guarantees?

7. Shopping around for an annuity – 2 mins

How do I get the best deal when buying an annuity?

8. Case study – guaranteed income – 5 mins

An example of someone who might benefit from having a guaranteed income.

Irrespective of the above example, the Consumer Duty is likely to see an overall need for greater use of technology, as well as modelling tools to create a clearly documented audit trail of what's been looked at and why.

See Appendix A on page 33 for a summary of key FCA suggested questions for this particular outcome.



Sample question and possible response

How does the firm adapt its communications to meet the needs of customers with characteristics of vulnerability, and how does it know these adaptations are effective?

One characteristic of vulnerability pertinent to the current cost-of-living crisis, is that of financial resilience. For those at the beginning of the customer journey seeking an adviser to discuss their retirement options, who may be over-indebted, have low savings or inadequate or erratic income, making them aware of support such as the Pensions Advice Allowance is an example of an adaptive communication.

Outcome 4. Consumer Support

The consumer support outcome involves the design and delivery of support that meets the needs of customers, including those with characteristics of vulnerability. The purpose of this support is to enable clients to realise the benefits of the products and services they buy, allow them to pursue their financial objectives, and ensure they can act in their own best interests.

To demonstrate that firms have thought about this outcome, and to be in a position to take any corrective action, firms should document what support they provide for each service proposition and subject each to questioning and evidencing. For example:

- What channel or channels (telephone, email, face to face, written, webchat or video calls) are available for the client to access your services? Does the channel meet the needs of your firm's target market?
- For vulnerable clients, what other channels are available that may better meet their needs?
- Are there unreasonable delays, distress or inconveniences caused to clients that are preventing them from realising the benefits of your products or services?

See Appendix A on page 33 for a summary of key FCA suggested questions for this particular outcome.



Sample question and possible response

How has the firm satisfied itself that the quality of any post-sale support is as good as the pre-sale support?

Through continued risk profiling for those clients in drawdown and/or warning clients about the potential tax liability on the withdrawals they want to make.

What next?

As firms continue their work on implementation of the Consumer Duty, we hope this document provides some useful content focused on target market and analysis, as well as wider support of the regulator’s final rules and guidance, its subsequent signposting of good practice¹⁵ and, of course, valuable wider sector commentary.

In its regularly updated guidance, Consumer Duty – Information for firms,¹⁶ the FCA usefully includes a list of suggested documents that firms seeking authorisation might submit in order to comply with the Consumer Duty. Some refer to overall requirements, such as an overview of a firm’s root cause identification process.

Others are linked to a firm’s target market/s and include:

- Target market analysis and identification
- Product and service governance framework
- Fair value assessment framework
- Customer understanding assessments and testing framework
- Customer support monitoring policies and supporting MI suite
- Customer outcome monitoring framework

While the regulator clarifies that the above isn’t an exhaustive list, it would seem a good reference point for authorised firms in respect of both their implementation plans, and the ongoing assessment of the extent to which they will continue to seek good outcomes for their clients.



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Appendix A

Types of question firms can expect to be asked in their interactions with the FCA in relation to the **Products and Services outcome** (FG22/5 – page 52)

- Has the target market been specified at a sufficient level of granularity for all products and services?
- How have you satisfied yourself that products and services are well designed to meet the needs of consumers in the target market, and perform as expected? What testing has been conducted?
- How have you identified if the product or service has features that could risk foreseeable harm for groups of clients with characteristics of vulnerability? What changes to the design of a product or service have been made as a result?
- Are you sharing and receiving all necessary information with other firms in the distribution chain?
- How are you monitoring that products and services are being correctly distributed to the target market?
- What data and MI are you using to monitor whether products and services continue to meet the needs of clients – review frequency and actions?

Types of question firms can expect to be asked in their interactions with the FCA in relation to the **Price and Value outcome** (FG22/5 – page 67)

- Is the firm satisfied that it is considering all relevant factors and available data as part of its fair value assessments?
- Has it gathered relevant information from other firms in the distribution chain?
- What insight has the firm gained for its value assessments by benchmarking the price and value of its products and services against similar ones in the market?
- Have the price and value of its older products kept up with market developments?
- Can the firm demonstrate that its products and services are fair value for different groups of consumers, including those in vulnerable circumstances or with protected characteristics?
- If the firm is charging different prices to separate groups of consumers for the same product or service, is the firm satisfied that the pricing is fair for each group? What action has the firm taken as a result of its fair value assessments, and how is it ensuring this action is effective in improving consumer outcomes?
- What data, MI and other intelligence is the firm using to monitor the fair value of its products and services on an ongoing basis? How regularly is it reviewing this material, and what action is it taking as a result?
- Are there fees or charges or rates that appear unjustifiably or unreasonably high compared to the benefits of the product and other comparable products (either in the firm's product portfolio or comparable products supplied by other firms)?
- Should or have any changes in the benefits of the product been reflected in the price?
- Should or have any material changes to assumptions that underpinned pricing (for example on costs of servicing) been reflected in changes to the price?

Types of question firms can expect to be asked in their interactions with the FCA in relation to the **Consumer Understanding outcome** (FG22/5 – page 89)

- Is the firm satisfied that it is applying the same standards and testing capabilities to ensure communications are delivering good customer outcomes, as it is to ensuring they generate sales and revenue?
- What insights is the firm using to decide how best to keep customers engaged in their customer journey, while also ensuring its customers have the right information at the right time to make decisions?
- How is the firm testing the effectiveness of its communications? How is it acting on the results?
- How does the firm adapt its communications to meet the needs of customers with characteristics of vulnerability, and how does it know these adaptations are effective?
- How does the firm ensure that its communications are equally effective across all channels it uses? How does it test that?

Types of questions firms can expect to be asked in their interactions with the FCA in relation to the **Consumer Support outcome** (FG22/5 – page 107)

- How has the firm satisfied itself that its customer support is effective at meeting customer needs regardless of the channel used? Does the firm test outcomes across different channels?
- What assessment has the firm made about whether its customer support is meeting the needs of customers with characteristics of vulnerability? What data, MI and customer feedback are being used to support this assessment?
- How has the firm satisfied itself that it is at least as easy to switch or leave its products and services as it is to buy them in the first place?
- How has the firm satisfied itself that the quality of any post-sale support is as good as the pre-sale support?
- What data, MI and feedback is the firm using to monitor the impact its consumer support is having on customer outcomes? How often is this data monitored, and what action is being taken as a result?
- How effective is the firm's monitoring and oversight of outsourced or third-party service providers, and is it confident that these services meet the consumer support standards?

