For intermediaries only

Regulatory updates following our podcast

Since we recorded our podcast on 3 April 2020, the FCA has made a number of further announcements, some of which we had anticipated during the podcast. Similarly, as we expected, the pensions Regulator and DWP have made further announcements regarding automatic enrolment.

Steven Cameron, Pensions Director, summarises the latest changes and sets out his thoughts.

The FCA’s 2020/21 Business Plan

In its 2020/21 Business Plan, published on 7 April 2020, the FCA has changed its immediate priorities and plans for the coming year to rise to the challenges posed by the Coronavirus pandemic. We support its short-term focus on protecting the vulnerable, tackling scams, ensuring fair customer treatment, keeping markets working well and mitigating the impact on consumers where firms fail. Advisers play a key role here so it’s unfortunate that the FCA plans a 1.6% increase in regulatory fees for some adviser firms.

The Business Plan also gives an insight into medium priorities for the next one to three years, including ensuring consumers can make effective investment decisions about their savings. This includes members of defined contribution pensions and those accessing pension freedoms, and there’s an encouraging reference to the importance of advice and ensuring consumers have access to it.

The Business Plan also gives a further indication that in the medium term, and once the UK has left the EU, that the FCA intends to focus more on principles and outcomes than rules and process. This creates opportunities to identify when prescriptive rules get in the way of good customer outcomes.

Deferrals of investment pathways and new rules for in specie transfers between platforms

As we’d expected, the FCA confirmed (again on 7 April) that the implementation of investment pathways and the ‘making transfers simpler’ initiative on in specie transfers and share class conversions are being deferred by 6 months until 1 February 2021.

Investment pathways

Investment pathways are designed to help non-advised drawdown customers choose a broadly appropriate investment solution but at the current time, this is particularly difficult even on a fully advised basis with a full understanding of the customer’s circumstances. Many customers will simply not be able to identify right now with one of the four prescribed retirement objectives at the heart of pathways.

We support the deferred implementation. While we will continue to work on our own pathway solutions, the delay allows providers to focus efforts on more pressing priorities. It also allows time to understand if consumer behavior in terms of investment choice as well as income levels taken will be influenced in the short or longer term by current events.

In the meantime making decisions when entering drawdown on investments and income levels is more difficult than ever, and strengthens our position that anyone considering drawdown should first seek professional financial advice.

Making transfers simpler

We support the FCA’s desire to make transferring between investment platforms simpler. However, the changes required to facilitate in specie transfers where the client is currently in a non-standard share class will involve effort from both platform providers and fund managers. Ultimately, these changes will benefit some customers, but in the short term we agree with the FCA that resources would be better spent on more pressing priorities for a wider range of customers.

New FCA guidance on how firms can better support customers without straying into regulated advice

In response to requests from firms and The Investing and Savings Alliance (TISA), the FCA has provided new guidance to pension and investment companies on what they can say to clients in the current Coronavirus pandemic, to offer them better support while not straying into regulated advice. In these times of huge uncertainty caused by the coronavirus, firms want to offer their customers as much support as they can, particularly when they are making important investment or retirement decisions. Ideally individuals would seek professional financial advice, but where they don’t there can be a grey area between guidance and advice which makes providers reluctant to go as far as they might ideally like to.

We welcome this timely guidance from the FCA which provides more clarity on what providers can ask or say to clients without this crossing into advice. This covers the situation where individuals over 55 may be looking to take money out of their pension and also where those across all ages are planning to switch from one class of investment to another.

There’s a real risk that in the present times some individuals may be tempted to rush into decisions without taking advice, which might not be in their best long term interests. The new guidance means their pension or investment provider may be able to help identify when an alternative solution may be available, possibly saving the customer from paying more in tax or losing the opportunity to benefit if stock markets rise in future. At Aegon, we’ll continue to always recommend individuals seek professional financial advice.

Latest guidance on defined benefit transfer advice

The FCA has also set out some new guidance on [expectations of advisers giving defined benefit transfer advice]() during the Coronavirus pandemic.

As the FCA rightly highlights, the Coronavirus pandemic could prompt more people to take advice on transferring from a defined benefit to a defined contribution scheme. For some, this might be the right thing to do, and advisers need to be able to meet that need particularly where delaying could be to the significant detriment of the customer.

The FCA has set out some potential misconceptions for advisers to face up to when advising clients. As it says, an increase in a transfer value doesn't necessarily make transferring 'better'. Similarly, death benefits are not always higher in the defined contribution world. Some clients may be particularly drawn to transferring if they believe their employer is 'going under' and here, the FCA reminds advisers to provide a fair assessment of the Pension Protection Fund.

This guidance comes at a time when trustees may have decided to defer quoting or paying transfer values for up to 3 months. While some trustees may need to take time to review transfer calculation bases, the FCA is clearly and helpfully not envisaging a blanket ban. For individuals planning to transfer to draw a flexible income in the short term, or in ill health with genuine concerns over death benefits, it's important that this market doesn't go into lockdown and is allowed to continue to function.

Detailed guidance from the Pensions Regulator on treatment of furloughed individuals utilising salary sacrifice for pension contributions

The Pensions Regulator (TPR) has provided a number of updates on what employers can claim in respect of employer minimum automatic enrolment pension contributions. This includes the situation where an employer has agreed to operate a salary sacrifice arrangement so that in return for a reduction in salary, the employer is paying additional pension contributions. The (TPR) guidance is very detailed and covers a number of examples showing how pension contributions should be calculated for furloughed employees, which you can find on the TPR website links below.

https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/automatic-enrolment-and-pension-contributions-covid-19-guidance-for-employers

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