

FCA updates retirement income market study terms of reference

The Financial Conduct Authority (FCA) has revised the terms of reference for its market study of the market for retirement income products in the UK to take into account the changes announced by the Government in the 2014 Budget.

Moving targets

On 14 February 2014, the FCA launched a market study into the market for retirement income products (for further details, see our Briefing Note "Financial Conduct Authority launches investigation of UK annuities market", published in February 2014).

However, reforms announced by the UK government in the Budget on 19 March 2014 will result in major changes to the pension and retirement income landscape.

From April 2015, consumers over 55 will have greater freedom as to how they access their Defined Contribution (DC) pension pot. Individuals will have the option to, individually or in combination:

- purchase an annuity or alternative retirement income product,
- take income from their pension pot, or
- fully withdraw their pension pot (subject to tax at their marginal rate).

The Budget also introduced measures to broaden options for consumers with small pension pots.

The FCA has therefore announced a revision of the terms of reference for the market study, in order to take these changes into account.

The revised terms of reference

The revised terms of reference emphasise that the market study will focus on products made available to UK customers by providers active in the UK and will cover insurance companies, intermediaries (i.e., advisers and brokers) and providers of SIPPs. The FCA is looking at consumers using funds from their personal pension plans and/or DC occupational pensions schemes to purchase an income product at retirement.

The key products the FCA will be considering are annuity and income drawdown products. Currently these products are either purchased through the open market or the provider of the existing pension scheme.

The FCA will also consider the following related products and markets: Defined Benefit pensions,

Key issues

- What is the focus of the FCA's market study?
- How has the scope of the study been affected by pension reforms that were recently announced by the government?
- What are the next steps in the process?

State pensions, savings accounts/cash ISAs/NS&I products, stock market-based investments, investment bonds from a life company, own/family business, and equity release products.

The FCA has identified four key areas which it will explore through the market study: (i) whether the competitive conditions in the current market are working effectively; (ii) how the market is likely to develop following the changes announced in the 2014 Budget; (iii) the value for money of retirement income products (in both the existing and new market landscape); and (iv) how consumers, providers and intermediaries are likely to behave in the future.

The FCA will now conduct a standalone thematic review of the sales practices relating to annuities (it had originally proposed to include these within the scope of the retirement income market study). This separate review will be reported on by the end of 2014 and the practices identified as part of this review will feed in to the market study. It will also form part of the evidence-base for the development and implementation of the "guidance guarantee" which, in accordance with the government's plans, will be offered to individuals at retirement from April 2015.

Next steps

The FCA is inviting evidence and views on the matters covered by the market study by 18 July 2014 and will publish its interim findings later this year. The FCA still expects to publish its final report by mid-February 2015.

Comment

The FCA's study is due to be published only a couple of months before the government's reforms will come into force. Given that timing, it remains to be seen whether the study will have long-term effects on the industry. In particular, as regards the

new, more "forward-looking" aspects of the study, there is some danger that it becomes an exercise in speculation: how will the market look after the reforms have been implemented, and what competition issues might arise in that (very) different competitive landscape? Definitive answers to these questions are likely to emerge only after the FCA has published the results of its study.

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