FINANCIAL CONDUCT AUTHORITY

Thematic Review

TR24/1

Retirement income advice thematic review

March 2024

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Chapter 1

Introduction

Who should read this report

1.1 This report is for:

- firms providing retirement income advice to new and existing customers in decumulation
- regulatory compliance consultancy firms
- trade bodies for regulated firms

1.2 Individual consumers and consumer representative groups may also find the results of interest.

Reason for the review

1.3 The decision to move from accumulation (where pensions and/or other savings are being built up) to decumulation (where these are accessed for income) is an important one. Consumers now have more flexibility about how and when they access their pension savings. Many now invest in retirement income solutions where their pension remains exposed to investment risk and mortality risk, as opposed to securing a guaranteed income for life.

1.4 The size of the retirement income market is significant, growing and taking place against the backdrop of an ageing population. In 2022, the size of the Defined Benefit (DB) market was £2.17tn and the Defined Contribution (DC) market was £1.41tn (Sources: DB information from TPR Annual report on UK DB and hybrid schemes 2022, and DLUHC LGPS funds for E&W: 2021 to 2022 / DC information from TPR DC Trust: Scheme return data 2022 to 2023 and FCA retirement income stock data).

1.5 Auto-enrolment has increased the number of individuals accumulating DC pension savings. In April 2021, an estimated 22.6m employees were in a workplace pension scheme, with an overall participation rate of 79%. These consumers will need to consider their options, and ultimately make decisions about how they access their pension savings when they retire. By 2050, over 25% of the UK population is expected to be over 65, while the figure for those over 85 is set to double to 5% (Source: Office for National Statistics population data).

1.6 Decisions for consumers approaching or in retirement have become much more complex with the potential for more risk. They now need to consider not just how they fund their retirement, but also the level of income to draw and which underlying investments to hold where their pensions remain invested (referred to as investment-based solutions in this report). For some consumers these decisions may also be influenced by differing objectives. For example, being able to meet retirement expenditure and the desire to leave an inheritance for their dependants.

1.7 Advisers have a key role in this market. They have an opportunity to demonstrate the value of their advice and services to help consumers make decisions about meeting their income needs sustainably in decumulation. However, the harm caused by poor advice may have a particularly detrimental impact on consumers. Firms must ensure their advice process complies with FCA requirements and expectations on information collection, suitability and disclosures. Firms must also ensure they have the requisite systems and controls to oversee their advice process and monitor customer outcomes.

1.8 This review supports our work to improve standards across the consumer investment market. Driving up standards in advice aligns with our vision for consumers to:

- invest with confidence
- make good investment decisions
- understand the risks and regulatory protections involved
- access investments that suit their circumstances
- get the support they need

1.9 These aims were set out in our Consumer Investments Strategy in 2021 and in our 'Preparing for the Future of Consumer Investments' from December 2023. That strategy, together with the focus on putting consumer needs first and enabling consumers to help themselves, seek to support consumers to invest with confidence, understanding the risks they are taking, and the regulatory protections provided. We also want to see consumers able to identify and access investments that suit their circumstances and attitude to risk.

1.10 Taking action to maintain high standards is important as we look to expand the market to new forms of advice and support, as part of the Advice Guidance Boundary Review. We want consumers to be able to access the help and guidance they need, at a time they need, at a cost they can afford. And when seeking advice, to be able to obtain good advice that helps them in making informed decisions about their financial affairs. This action signals that we will look to expand the market in a way that maintains consumer protection.

1.11 Since the introduction of pension freedoms, we have introduced several requirements to help consumers in decumulation. Many of these were driven by our Retirement Outcomes Review. These include:

- earlier and more frequent wake-up packs
- a 'stronger nudge' to Pension Wise guidance
- investment pathways to help non-advised drawdown consumers choose investments better aligned with their retirement objectives and reduce the risk of them 'defaulting' into an inappropriate option
- retirement risk warnings to be given when a consumer has made a decision in principle on how to access their pension
- cash warnings so that non-advised drawdown consumers invest wholly or predominantly in cash only if they have taken an active decision to do so

1.12 The Consumer Duty (the Duty), which came into force on 31 July 2023 for open products and services, is also key to securing good customer outcomes. The Duty sets high and clear standards of consumer protection. Further information on the outcomes sought under the Duty is in Section 5.

Aims of the review

1.13 We published findings from a review of non-advised drawdown pension sales in March 2018 and the Retirement Outcomes Review Final Report in June 2018. These reports studied the evolution of the retirement income market post-freedoms for consumers who did not take regulated advice. In addition, there has been significant supervision and policy work on DB pension transfer advice.

1.14 Our key aims were to:

- gain detailed insights into how the retirement income advice market is functioning
- understand whether firms' advice models consider the specific needs of consumers in decumulation
- consider whether consumers are being provided with suitable retirement income advice when accessing benefits built up through pension savings, and take appropriate action to tackle any harms identified
- inform our future areas of focus

1.15 The timing of the review also gave us an opportunity to explore how firms were implementing the Duty and responding to changing consumer needs due to the rising cost of living.

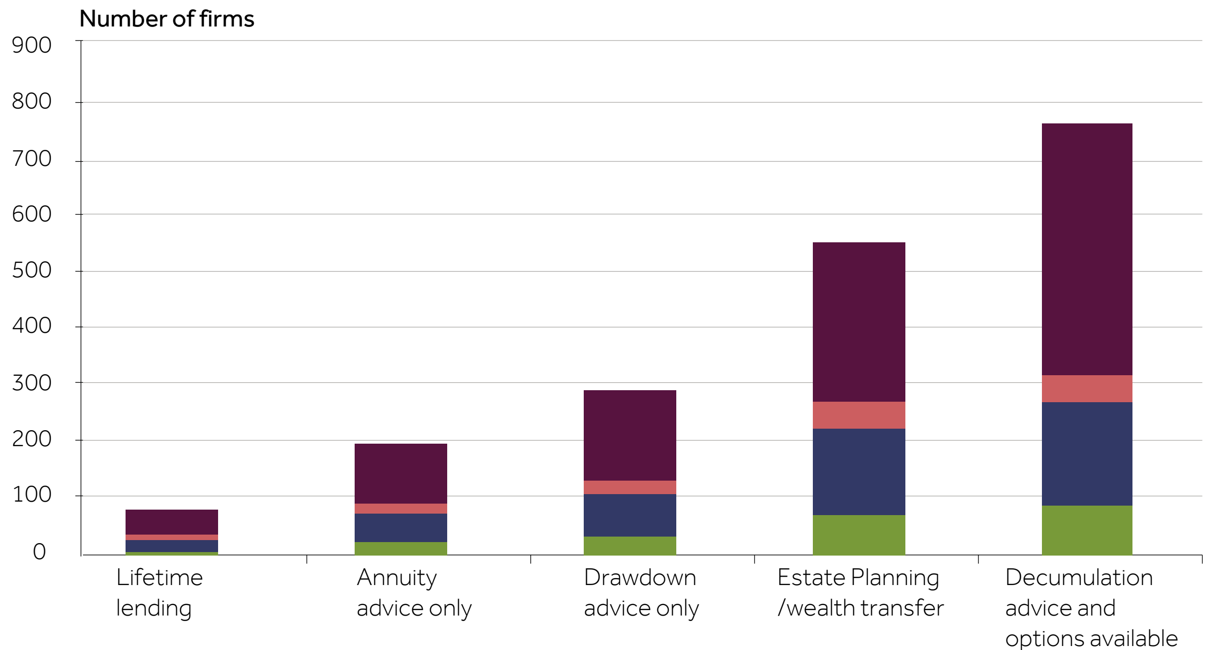
Retirement income advice market

1.16 Since pension freedoms in 2015, the market has changed. More consumers are moving into solutions where they remain invested but draw regular or ad hoc income using income drawdown and/or uncrystallised funds pension lump sums (UFPLS). Where investment-based solutions are used to meet retirement income needs, investment and longevity risk is borne directly by consumers rather than annuity providers.

1.17 The FCA Retirement Income Market Data (which covers FCA-authorised firms) shows that only 10% of pension pots accessed for the first time in 2021/22 were used to purchase an annuity. Before pension freedoms, over 90% of pots were moved into annuities (Source: Retirement Outcomes Review Interim Report July 2017). The changes in the market have been affected by the legislative reforms, and the low interest rate environment since 2008. Lower interest rates have impacted returns from government bonds which affect annuity rates. This makes them less attractive for many consumers. However recent changes in economic conditions have led to higher rates which may lead to more consumers buying annuities. There have also been innovations in the market, with alternative products known as blended solutions now available. These combine drawdown with an annuity, aiming to balance some of the investment risk of drawdown with the security of a guaranteed income.

1.18 Firms have potential conflicts of interest in this area which need careful management. This is because solutions where the consumer's pension remains invested give firms the opportunity to provide and charge for ongoing retirement income advice, whereas annuities do not.

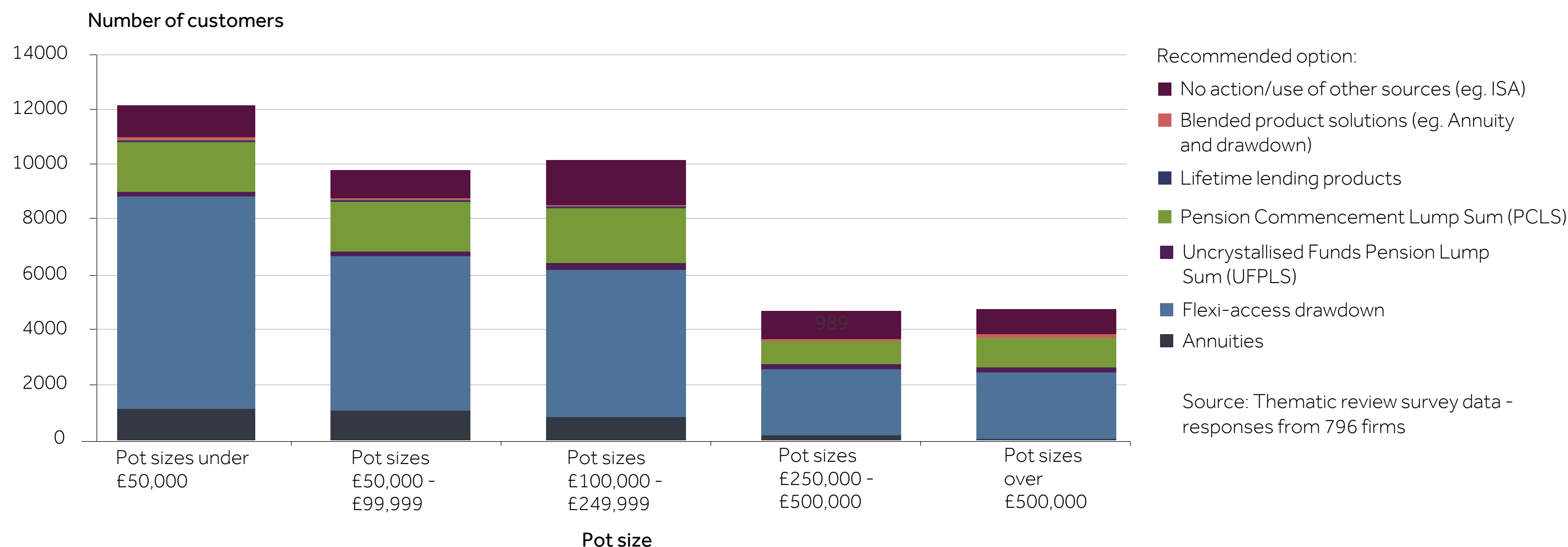
Figure 1: Most common customer characteristics and objectives of firms' customers



Firms were able to answer with more than one option – 456 firms provided answers

Question 17	Lifetime lending	Annuity advice only	Drawdown advice only	Estate Planning/ wealth transfer	Decumulation advice and options available
High net worth	20	49	74	154	186
Professionals	7	25	36	73	89
Retail consumers	44	105	160	284	444
Sophisticated investors	10	18	24	46	48
Grand Total	**81**	**197**	**294**	**557**	**767**

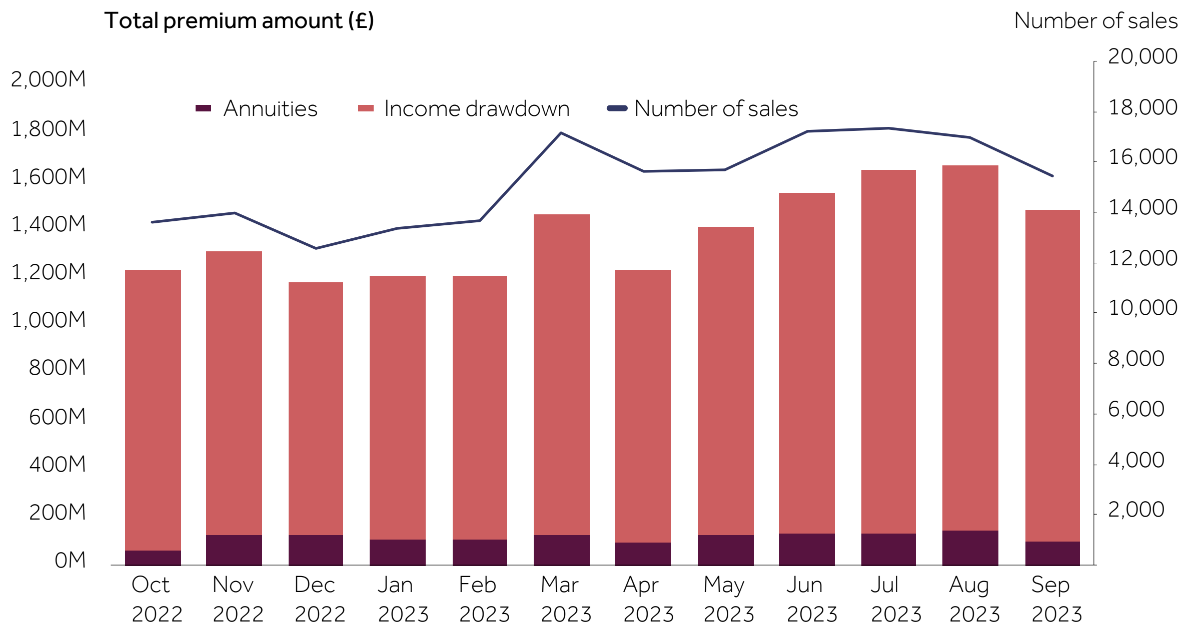
Figure 2: Customer recommendations



Source: Thematic review survey data - responses from 796 firms

	Annuities	Flexi-access drawdown	Uncrystallised Funds Pension Lump Sum (UFPLS)	Pension Commencement Lump Sum (PCLS)	Lifetime lending products	Blended product solutions (eg. Annuity and drawdown)	No action/ use of other sources (eg. ISA)
Pot sizes under £50,000	1190	7681	187	1846	65	109	1122
Pot sizes £50,000-£99,999	1092	5634	154	1852	42	62	1008
Pot sizes £100,000 – £249,999	896	5341	230	2003	49	79	1657
Pot sizes £250,000 - £500,000	182	2457	187	824	15	62	989
Pot sizes over £500,000	63	2418	214	1049	4	126	953

Figure 3: Total premium amount by product compared to number of sales



Source: Product sales data

Regulatory framework

1.19 The review assessed firms' practices against existing FCA requirements and expectations that were applicable at the relevant time. This includes, but is not limited to, rules and guidance under the Principles for Businesses, COBS, PROD, SYSC and TC and other non-Handbook materials, including published final guidance in:

- FG11/05:'Assessing suitability: establishing the risk a customer is willing and able to take and making a suitable investment selection'
- FG12/16: 'Assessing suitability: replacement business and centralised investment propositions'
- TR16/1: 'Assessing suitability: research and due diligence of products and services'
- Regulatory Guide: 'The Responsibilities of Providers and Distributors for the Fair Treatment of Customers' (RPPD)
- FG21/1: 'Guidance for firms on the fair treatment of vulnerable customers'
- FG21/3: 'Advising on pension transfers'

1.20 When considering a firm's recommended solution for a customer in decumulation, we took a holistic approach in terms of the products considered. This is because we recognise there may be customer circumstances when drawing from other assets and preserving pension savings may be suitable. So, the review considered a wide range of products, including pensions, insurance-based investment products and MiFID financial instruments which are subject to a range of rules.

Key findings

1.21 Our findings are drawn from a representative sample of 977 firms who responded to a data survey, and a desk-based review of the advice models and advice files of a non-representative sample of 24 firms.

1.22 The review of advice models revealed a mixed picture across the firms we reviewed. Some firms had evolved their approaches and adapted to the post-freedoms landscape. They had clearly detailed processes, specific training on decumulation and used a range of tools to help illustrate complex information for customers. We found some examples of good practice where the advice and services delivered were clearly designed to meet the needs of customers in decumulation.

1.23 In several areas, it was apparent that not all firms were taking account of the differing needs of their customers in decumulation, as opposed to accumulation. We saw some examples of poor practice where some firms had not shown they had considered the needs of their customers or set out their advice model in a way likely to lead to good and consistent outcomes. We also found instances where some firms had not provided the right information to support their customers to make informed decisions.

1.24 We identified considerable differences between firms in advice file record keeping. We requested advice files from the 24 firms included in our desk-based review. We noted 10 files (10%) were missing key documents, so could not be assessed. Of the files we were able to review, 45 files (67%) were found to be suitable. However, we found 7 files (11%) where we had concerns about suitability and 15 files (22%) had material information gaps (MIGs), so these could not be fully assessed. Further information on advice file findings is in Section 3.

1.25 Unsuitable retirement income advice has the potential to result in significant harm. It can result in:

- consumers suffering a reduction in their level of income and/or their funds running out too soon
- potentially paying higher charges than necessary
- investing in complex solutions that they do not understand or not aligned with their risk profile

1.26 Many of these consumers may be unable to take the necessary steps to mitigate any losses, for example, by returning to work to supplement their income. It is crucial firms effectively understand the retirement needs of their customers, including considering whether and what level of sustainable income may be required, and recommend a suitable solution to meet those needs.

1.27 Firms must also ensure that vulnerable customers are treated fairly. Our findings show that while firms have thought about the needs of vulnerable customers, they were not implementing vulnerable customer processes in an effective or consistent manner in several areas. This risks poor outcomes for these customers.

1.28 We identified the following key areas for improvement where we expect firms to raise standards. This will help deliver advice and services in line with our expectations and that also meets the needs of their customers in decumulation.

Areas for improvement

Income withdrawal strategy/methodology

1.29 Firms generally use cashflow modelling (CFM) or a specific percentage withdrawal 'guide' rate to help show customers the income they might be able to draw sustainably throughout their life. The withdrawal guide rate firms use to help calculate sustainable income varies across the market. Firms may have referred to industry research when deciding what withdrawal guide rate to use as the standard basis for income drawdown advice within their firm.

1.30 Not all firms were effectively considering sustainability of income withdrawal. For example, many firms were not using CFM or were not using it in a consistent or appropriate manner. The lack of, or inconsistent, use of CFM or a withdrawal guide rate (where CFM is not used) to estimate sustainable levels of income means consumers risk making poor decisions about how and when to withdraw their funds.

1.31 We expect firms to consider their customers' current and future income needs in retirement. Whether firms choose to use CFM or a withdrawal guide rate, they should adopt a reasonable approach that is adequately tailored to the customer's circumstances and objectives. We expect firms to illustrate the longevity of income in a variety of scenarios as discussed with the customer. Firms should also be aware of our expectations on use of CFM in related areas of retirement advice, for example, DB pension transfers. These state that CFMs should be in real terms, ensure tax bands and limits are based on reasonable assumptions, take into account all relevant tax charges and include stress-testing scenarios.

Risk profiling

1.32 We have set out clear requirements for risk profiling which firms must follow, and published final guidance on how to establish the risk a customer is willing and able to take in making a suitable investment selection. This means firms should assess capacity for loss (CFL) consistently, in addition to attitude to risk (ATR), to help identify suitable solutions for their customers.

1.33 ATR is a subjective measurement of an individual's willingness to accept risk while CFL relates to their ability to absorb losses. ATR and CFL are both key elements of risk profiling. When moving from accumulation to decumulation it is likely that the ATR and CFL for many customers will change so needs to be reassessed.

1.34 Some firms were not assessing CFL for customers. Failure to consider CFL in decumulation means firms may not be correctly identifying suitable income or

investment-based solutions. This could lead to customers taking on more risk than appropriate and enduring reductions to their income that they cannot withstand.

Advice suitability

1.35 Firms are required to get the necessary information about the customer to assess suitability before making a personal recommendation. Establishing sufficient information about key areas helps firms show they have properly considered all relevant factors about the customer. So, fact finding should be complete, with no gaps, inconsistencies or missing relevant information.

1.36 We had particular concerns around the suitability of the advice given in 7 files. The issues we identified included loss of guarantees and features, penalties incurred and unnecessary charges or tax. Some customers were also not given information about relevant options.

1.37 Some files showed firms had failed to get the necessary information from customers. We identified the following deficiencies with firms' fact finding and records:

- potential vulnerability was not identified, recorded or explored even where information on file suggested vulnerability may have been present
- knowledge and experience of investments and understanding of risk was either recorded at a high level, inconsistently or not supported by the information on file
- expenditure analysis was not recorded or completed so it was not clear what the minimum income need was or what proportion of this was for essential (non-discretionary) expenditure
- information about wider financial circumstances, for example, other pension provision and the state pension was missing
- income, including any lump sum capital needs were not quantified or the timeframe for which income was required was not stated
- future lifestyle changes were not explored or recorded, for example, when a partner would retire/receive a pension or how objectives or income needs were likely to change
- it was unclear whether information relating to the risk of capital erosion, the potential for annuity rates to be worse in future, or that income levels might not be sustainable had been disclosed

1.38 Firms must collate the necessary information and maintain proper records about their fact finding, recommendation, communications with their customers, and required disclosures. This includes how the customer's investment knowledge and experience and understanding of investment risk has been established. Without doing so, firms risk giving unsuitable advice and recommending solutions for their customers that do not align with their income needs in retirement.

1.39 To show suitability of recommendations, firms must keep orderly records of their business, including their services and transactions. This enables us to ascertain a firm's compliance with obligations regarding their customers. Firms who receive complaints may also otherwise not be able to evidence that advice is suitable.

Periodic review of suitability

1.40 Where customers are paying for ongoing advice, firms should clearly confirm the details of the ongoing service, its associated charges, and how customers can cancel the service and stop payment of associated charges. Firms should not charge customers for services that are not delivered. In the data survey, some firms indicated that some of their customers had paid for but did not receive an annual/ongoing review. Not all firms were able to give this data as it was either not measured or not recorded centrally.

1.41 We expect firms to track and monitor when review meetings are due and identify whether any are missed. Where firms do not measure key information or are not able to access this easily, they may find it more difficult to demonstrate the delivery of good customer outcomes. For customers in decumulation there is a higher likelihood that they have characteristics of vulnerability. So, it is important that firms have a plan to ensure services are proactively delivered.

Control framework

1.42 Firms must take reasonable care to establish and maintain appropriate systems and controls over their business. This should include providing their management with information to identify, measure, manage and control risks relating to regulatory concerns, for example, the fair treatment of customers.

1.43 Some firms found it difficult to provide the requested information for our data survey. This was because data was not centrally recorded or could only be provided through manual extraction from individual files.

1.44 Where firms were involved in the desk-based review, a number also had difficulty providing fully completed advice registers. This meant we did not receive a full record of advised transactions from which to select advice files for review. From the advice registers we received, we identified inaccurate or inadequate management information (MI) for over half of the firms. In several instances, we found advice registers were so inaccurate that the advice scenario for files we received did not match what was recorded. Where we identified concerns with advice registers, we noted:

- the recommended solutions were not recorded which made it difficult to identify transactions that might pose higher risk of customer detriment
- the ceding scheme arrangements were not shown so the arrangement the customer had held before the retirement income advice was given was unknown
- the ceding scheme provider names were missing so it was not possible to identify plans that might have held underlying guarantees or safeguarded benefits
- where ceding scheme provider names were recorded, any ceding plan features such as underlying guarantees or safeguarded benefits were not always noted
- the type of advice, initial or ongoing, was not always recorded which made it difficult to select files according to the type of advice given
- the level of initial and ongoing advice fees was not always shown
- it was unclear whether files had been quality assurance (QA) checked

1.45 Firms must show they have robust systems and controls and consider appropriate information to monitor customer outcomes. This includes having a comprehensive advice register which will help firms manage their business and respond to any FCA requests for information to monitor their compliance with regulatory obligations.

1.46 Further details on the key findings are in Section 2 and Section 3.

Other findings

1.47 Findings on other areas of firms' Centralised Retirement Proposition (CRP) are in Section 4, covering:

- the nature and scope of services
- lifetime lending
- adviser charging model
- platform selection
- use of third-party tools/service providers
- decumulation solutions/investment selection
- training and competence
- adviser incentives
- vulnerable customers
- conflicts of interest

Firms' readiness for Consumer Duty

1.48 All information including advice files considered in this review were provided before the Duty came into force. So, we did not assess any of this against its requirements. Instead, we looked at how firms planned to comply with the Duty after 31 July 2023, when it came into force for existing products and services. This applies to those that are open to new customers or for renewal by existing customers on or after 31 July 2023. (The Duty will apply to closed products and services from 31 July 2024.)

1.49 Our findings show some firms had taken steps to prepare for the Duty. This included specifying their target market and recording how the firm's service had been designed to meet the needs, characteristics and objectives of their customers. Just under half of the firms that responded to our survey (456 out of 977) indicated they had a target market for their services. However, from our desk-based review sample, we found over half of the 24 firms had not clearly defined the composition of their target market or did not show how their products and services met their customers' needs, characteristics and objectives. So, these firms had not taken the necessary steps to prepare for the Duty. However, a small number of firms had also considered whether their product or service design might adversely affect groups of customers in the target market to avoid causing foreseeable harm.

1.50 Responses to our data survey indicated most firms had put in place policies to identify and respond to the needs of vulnerable customers. Our review of firms' advice models confirmed firms had policies in place. However, a small number of firms had a generic policy in place, with no indication this had been properly implemented for the business.

1.51 Advice registers provided by firms in our desk-based review sample showed over half of firms had inaccurate or incomplete information about advice given. This means they may be unable to manage their business and operational risks appropriately. It is also likely to make it difficult for them to monitor customer outcomes, which is a key requirement of the Duty.

1.52 Section 5 of this report provides further information about the Duty, which firms must comply with.

Next steps

Actions for firms

1.53 The review identified multiple areas for improvement. This report sets out our findings and expectations under existing rules and guidance, which the Duty now supplements. We have included some anonymised examples of good and poor practices we found to give practical help to firms. Where we have highlighted good practice, this means that firms were meeting our existing requirements in a way likely to lead to consistently good outcomes. Where we have observed poor practice, firms were unlikely to have met our existing requirements and so risked poor outcomes. All firms that provide retirement income advice should consider and use this information to review and update how they work.

1.54 Firms should also refer to the questions in the data survey and take immediate steps to review whether they have appropriate MI and update their data collation processes and records accordingly. This will help firms to ensure effective governance of their business and improve oversight of customer outcomes in line with the requirements of the Duty. It will also help firms better respond to regulatory requests for information.

1.55 We have also published the Retirement Income Advice Assessment Tool (RIAAT), developed for the purpose of the review to assess the suitability of advice files. The RIAAT has been published to help firms understand our methodology for assessing advice files. This is supported by an article on cashflow modelling which sets out points for firms to consider when preparing and using a cashflow model.

1.56 In tandem with this report, we have issued a Dear CEO letter. This draws to senior managers' attention our expectation that firms must take action in response to the findings of the review as set out in this report, and that there will be follow up supervisory activity.

Further supervisory work

1.57 All firms that participated in our desk-based review will also receive separate specific feedback to help them raise standards and adopt good practices. We will require actions of firms where we identified poor practice. We are considering a range of tools for the best way to do this.

1.58 Retirement income advice will remain an ongoing focus for us. We will be following up on the findings of the review more generally with firms involved in the retirement income advice market. We will also be carrying out further supervisory work in this area to explore the scale of the issues identified and tackle any harms.

1.59 We will take further action if firms do not address the areas of poor practice highlighted by the review. Where appropriate, we will require firms to rectify instances where customers have not received the level of service expected. This includes the provision of potential redress where appropriate.

Chapter 2

Key findings: Centralised Retirement Proposition (CRP)

2.1 We reviewed firms' retirement income advice models. Some firms used a CRP. A CRP is a documented approach to help different advisers within a firm give advice to different customers in a consistent way. It helps guide advisers on some of the more complex aspects facing customers in retirement. For example, considering different retirement income solutions, ensuring sustainability of income withdrawals, tax efficiency and investment strategies.

2.2 Not all firms in the market have a CRP. Some firms have a centralised investment proposition (CIP) which focuses primarily on the investment-based solutions and does not cover annuities. And some firms do not have either a CRP or CIP.

2.3 Whether firms have a CRP, CIP or use some other approach, they are more likely to be able to deliver consistent and suitable advice where they have designed their advice model to meet the needs of their customers. They should also ensure they have the appropriate processes, training and tools in place to support this. References throughout this report to CRP refer to the advice model firms had in place, regardless of the type.

Income withdrawal strategy/methodology – Objective: The firm uses a strategy that applies appropriate assumptions to meet the income needs of decumulation customers.

2.4 There are a variety of options to meet retirement income needs. These include annuities, flexi-access drawdown, UFPLS, small pots encashment, non-pension income from ISAs or other assets and lifetime lending. The appropriate strategy for providing income may include a combination of solutions. Individual customers may have very different objectives. Some may require income to be sustainable throughout the individual's lifetime, whereas others may want to take more, or possibly all, available income to meet a specific objective in earlier years.

2.5 When giving holistic advice on income withdrawal, UFPLS and short-term annuity recommendations, we expect firms to consider current and future income requirements, existing pension assets and the relative importance of the plan, given the customer's financial circumstances.

2.6 To help determine sustainable income withdrawal levels, several factors are important. This includes whether natural income/yield or a specified withdrawal 'guide' rate is used. How short-term income needs are met is also relevant. The timing of encashments can impact sustainability if withdrawals are made when investment fund values have dropped (sequencing risk). Firms may have different approaches for mitigating against this. We explored whether the strategies firms used to calculate income withdrawal

levels would help customers to make informed decisions about how and when to withdraw their funds.

Use of withdrawal guide rates

2.7 The data survey indicated firms use a range of different withdrawal guide rates to help calculate sustainable income. While some firms had a standard rate (house view) to use as a guide for income withdrawal advice, others did not and used CFM instead:

- 276 out of 962 firms stated they had a standard rate and of these:
  - 45 firms used 3%
  - 199 firms used 4%
  - 32 firms used 5%
- 686 firms stated they had no standard rate
- 810 firms stated they used some form of CFM
- 111 firms stated they did not use CFM or have a standard rate

2.8 The data does not tell us how the standard rates firms had chosen to guide recommendations were determined or how these would be used in practice. For example, whether the applicable rate might be varied according to age, the level of charges or other factors. The use of an appropriate guide rate to support income withdrawal recommendations is likely to be helpful for customers, especially where CFM tools are not used. However, firms should have a reasonable basis for choosing the withdrawal guide rate they use for each customer. Further, where firms apply a standard rate, this will not be helpful if it does not take account of customers' individual circumstances. It is unlikely, for example, that using the same standard rate for customers with significant age differences would lead to outcomes that meet their needs without at least testing outputs with the aid of CFM.

2.9 From the CRP reviews, we saw all 24 firms used a range of strategies for determining retirement income needs. A small number of firms did not clearly record their approach, so we could not determine whether their strategies were appropriate for customers.

2.10 Most of the 24 firms combined the use of a standard rate with CFM to formulate income withdrawal recommendations. Some firms did not use a withdrawal guide rate but relied on CFM. In a very small number of cases, firms used neither a withdrawal guide rate or CFM, and it was not clear from their documentation how they estimated sustainable income withdrawal levels.

Good practice

One firm showed that recommended solutions were clearly linked to objectives, risk profile, tax efficiency and sustainability. The firm had a detailed CRP which set clear parameters for advisers, while allowing some flexibility dependent on customer needs. A robust approach was taken on sustainable income, whereby both stochastic and deterministic cashflow planning was used to help provide sustainable income recommendations.

Poor practice

One firm did not evidence how different solutions would be used to meet retirement income needs or how these met the needs of its customers. There was no consistent approach for meeting short-term income needs. This was left to the discretion of individual advisers, creating a risk of inconsistent or poor income withdrawal advice for customers.

In another example, a firm adopted a flexible customer-led approach, with no withdrawal guide rate in use and no CFM. Income yield was used depending on individual customer circumstances to inform income recommendations. However, there appeared to be no consideration of the impact of fluctuations in yield or any assessment showing the likely level of sustainable income.

Use of CFM

2.11 CFM has a significant role to play in helping to illustrate how much income could be drawn in a sustainable manner for the duration of the customer's lifetime, taking into account their circumstances and the size of their pension savings. It can also help establish their CFL, which is covered under 'Risk profiling' findings. Many firms indicated in response to the data survey that they used CFM tools. While the use of CFM tools may lead to better outcomes for customers, firms should ensure they use reasonable and justifiable underlying assumptions otherwise customers risk withdrawing too much or too little income.

2.12 There are 2 types of CFM approaches in use, deterministic or stochastic. Deterministic models use assumptions which do not vary, like a future growth projection. Stochastic models allow for variability and produce a range of possible outcomes based on a statistical model. Whichever type firms use to illustrate possible outcomes, they should also set out why the actual outcomes will vary in practice. Firms should also ensure that the underlying assumptions or parameters used in CFM are reasonable and reviewed regularly to ensure they remain appropriate.

2.13 There are no specific requirements for firms to use CFM. However, we have previously set out expectations on CFM for DB pension transfer advice. Firms may find this information helpful when using CFM.

2.14 Firms are required to establish and maintain such systems and controls as are appropriate to their business. Where firms use CFM tools, they should ensure these are appropriate and reviewed regularly.

2.15 The data survey indicated:

- 401 out of 956 firms used deterministic CFM
- 409 firms used stochastic CFM
- 146 firms did not use CFM
- 634 firms reviewed the underlying assumptions annually

2.16 From the CRP reviews, we saw 21 of the 24 firms (88%) used some type of CFM tool. Of the firms that did not use CFM tools, 1 firm indicated that they would use a tool in specific decumulation recommendations. Most firms could evidence the checks and research they had completed before deciding which tool to use but 5 firms did not appear to have done either.

2.17 Firms should consider whether the assumptions used in their CFM are still appropriate and reasonable, when considering all relevant factors, including changes in economic conditions. Seven firms, however, did not appear to have carried out any review. We would also expect firms to clearly document the impact of fund withdrawals, predicted inflation and charges on customer investments and the potential for sustaining adequate income in retirement. Firms should also include stress-testing scenarios to assess more than one potential outcome for customers.

Good practice

One principal firm had recorded the various CFM tools that could be used by its advisers and appointed representatives (ARs). It highlighted the key features of each so they could decide which was most appropriate. The firm set out a clear expectation that CFM or a sustainability tool should be used for all investment related retirement advice. It also gave guidance on how to demonstrate the outputs in a clear way to customers. While the firm did not mandate the assumptions ARs should use, it issued guidance and default assumptions to use.

Another firm showed it stress tested all decumulation plans. It used a range of scenarios, including significant market falls at inception to reflect sequencing risk and the impact of loss of a partner's income where there was significant reliance on this.

Poor practice

One firm stated CFM tools were used but it was up to advisers to decide whether and how to use these. No guidance was given to advisers so in practice their use might be inconsistent and lead to variable outcomes for customers.

Another firm could not show how they had decided which CFM tool to use. There was no evidence of any research and the firm did not show it understood what standard assumptions were used in the modelling.

Risk profiling – Objective: The firm has a robust process to assess customers' ATR and CFL.

2.18 Investment-based income solutions such as drawdown expose consumers to ongoing investment risk. So, it is vital that firms ensure solutions are properly aligned to customers' risk profiles. Robust risk profiling helps firms to make recommendations which consider their customer's risk appetite. ATR represents an individual's mindset or willingness to accept risk, whereas CFL considers their ability to absorb losses. ATR and CFL are both key elements of risk profiling.

2.19 We have clear requirements for risk profiling which firms must follow. Firms are required to obtain such information as is necessary to ensure the transaction recommended is one the customer is able financially to bear the risk of, and that is consistent with their investment objectives. We have also published final guidance on how to establish the risk a customer is willing and able to take in making a suitable investment selection.

2.20 In retirement, CFL determines the extent to which consumers could cope with a reduction or change to their income. For example, if there was a fall in the value of pension savings this might reduce the level of income that could be withdrawn sustainably, or a guaranteed or fixed level of income might not keep pace with inflation.

2.21 When moving from accumulation to decumulation it is likely that the ATR and CFL for many customers will change, so needs to be reassessed. Recommended solutions should align with the customer's broader risk profile, taking into account their ATR and CFL. The processes firms use to assess these are key to helping customers invest in suitable solutions. We reviewed firms' processes, including any ATR and CFL tools used, to determine whether these were appropriate for decumulation. To assess CFL firms may use CFM tools, as noted in the 'Use of CFM' findings. Our approach was to assess what firms did, rather than the method adopted.

2.22 Firms indicated in response to the data survey that they took the following approaches to risk profiling (more than one option might apply for each firm):

- 866 firms used a risk questionnaire
- 472 firms used software
- 339 firms used a visual or descriptive aid
- 123 firms indicated that a discussion took place with customers
- 221 out of 970 firms had a different process for assessing ATR in decumulation (as opposed to accumulation)
- 293 out of 960 firms had a separate process for assessing CFL which was distinct from the ATR assessment

2.23 From the CRP reviews, we saw that for all 24 firms the risk profiling approach showed no clear distinction between accumulation or decumulation. This meant the language and questions were not specifically framed for customers in decumulation. Although, generally, the example questionnaires we saw were clear, with unambiguous questions and descriptions, some were written with an accumulation specific focus. This means customers could be inaccurately profiled and take on risk not in line with their circumstances. In a small number of examples firms had recognised that an accumulation-specific risk profiling approach had limitations and supplemented this with a more detailed discussion about retirement income needs and the need for secure income.

2.24 We also saw that most firms had a combined ATR and CFL approach, although 4 firms had separate processes. One of these firms used a questionnaire, whereas 2 firms used software. Our published final guidance indicates that assessing ATR and CFL separately avoids the risk of conflating these outputs (FG11/05).

2.25 The advice file reviews also identified concerns about risk profiling. These are covered in more detail in Section 3. The findings in this area are concerning. If firms do not carry out adequate risk profiling, customers may be invested in solutions not aligned to their profile or tolerance level and could, as a result, incur financial loss.

Good practice

One small firm used a software tool to assess ATR and CFL. The firm recognised the questions were designed for accumulation so supplemented this with a questionnaire and discussion focused on retirement objectives and income needs, including preferences for this to be secure.

One firm asked an external provider to complete a formal review of its ATR questionnaire using a control group of several thousand consumers. The firm also completed quarterly checks to ensure CFL limits were not breached.

Poor practice

One firm had a 3-step process for risk profiling, risk tolerance, risk capacity and knowledge and experience. Each stage was based around a discussion with the adviser and there were no standard questions to guide the discussion. There is a risk that this approach could lead to inconsistent outcomes between different advisers of the firm.

Periodic review of suitability – Objective: The firm has a robust and effective process for providing ongoing advice and services to its customers.

2.26 Where customers are paying for ongoing advice, it is important that firms set out clearly what services are included, how this is to be delivered and how frequently. It is important that firms have a plan to ensure services are proactively delivered as agreed. There is a higher likelihood that decumulation customers have characteristics of vulnerability. Failure to review factors such as income needs, change in circumstances, objectives, risk profile and health conditions, and to put in place appropriate systems and controls to support those customers who are vulnerable, risks such customers not being treated fairly.

2.27 In response to this section in the data survey, 231 firms indicated that 6,108 out of 213,128 customers (2.9%) had paid for but did not receive an annual/ongoing review in 2022. Some firms were unable to provide the number of missed reviews but proceeded to indicate why reviews had been missed. The key reasons were (more than one option might apply for each firm):

- 382 firms indicated customers declined/did not respond
- 29 firms attributed this to firm error/oversight
- 10 firms indicated this was due to employee resource
- 157 firms noted that data was either not measured or not recorded centrally

2.28 Our rules state that firms must not use an adviser charge unless the adviser charge is in respect of an ongoing service for the provision of personal recommendations or related services. We do not expect customers to be charged for services that are not delivered.

2.29 More broadly, we would expect firms to track and monitor when review meetings are due and identify whether any are missed. Where firms do not measure key information or are not able to access this easily, they may find it more difficult to demonstrate the delivery of good customer outcomes.

2.30 From the CRP reviews, we saw most firms had detailed guidance or agreements in place describing the specifics of their ongoing service. The documentation for 5 firms, however, did not describe how the firms identified whether they were delivering ongoing services and what controls they had in place to help them meet service commitments. We also saw 4 firms did not set out clearly what services were included in an ongoing review so customers may not be receiving expected levels of service on a consistent basis.

Good practice

One firm had an ongoing service process flow document describing what was expected of advisers during ongoing reviews. It also gave information to customers detailing what would be covered in ongoing reviews. Suitability reports also included an appendix showing this information.

Another firm had processes and controls to cover ongoing QA as well as the actual fulfilment of reviews. Adviser forums were in place to oversee any issues arising from fulfilment of the services provided. The firm's systems were able to identify and flag where reviews were missed and fed into key risk indicators used to measure performance and oversight of advisers.

Poor practice

One firm acknowledged that ongoing reviews could be missed but did not have a process to mitigate this or set out the action it would take to ensure customers were not paying for a service they did not receive.

Control framework – Objective: The firm's systems and controls, and MI help ensure effective management and oversight of its decumulation business.

2.31 Firms are able to manage their business, including operational risks, much better if they have appropriate systems and accurate MI. There should be clear lines of responsibility, including committees where appropriate depending on firm size.

2.32 Firms are required to have robust governance arrangements in place. This includes having effective processes to identify, manage, monitor and report risks to their business. Firms are also required to establish, implement and maintain adequate procedures to ensure compliance with their regulatory obligations.

2.33 From the CRP reviews, we saw 20 of the 24 firms (83%) had a governance structure that had clear reporting lines and designated individuals accountable for key areas of the business. For 4 firms, however, their documentation did not clearly explain how oversight worked in practice, with gaps in the documents or no organisational charts to explain this. For one of these firms, while there was an organisational chart, it did not cover all areas of the business, so accountability was not fully shown. In another example, the chart showed there was a degree of autonomy in areas of the business but there was no clear indication of lines of responsibility or that there was some central oversight of these.

2.34 As part of the review, we issued a data survey for a market-wide view across a range of topics. For the CRP reviews we asked all 24 firms to complete an advice register of their retirement income advised business in 2022. For both elements of the review, some firms found it difficult to provide the requested data. This was because information was not measured, not centrally recorded, had to be collated from different sources/systems

or could only be provided through manual extraction from individual files which needed considerable time and effort to collate. This exercise was especially difficult where firms had a high volume of transactions.

2.35 We found 13 of the 24 advice registers (54%) had gaps in the information recorded (as set out at paragraph 1.44). Where firms had gaps in advice registers, we had to highlight a range of transactions and ask for further information before we could select files for review. In several instances, we found advice registers were so inaccurate that the files received did not match with the recorded advice scenario.

2.36 Despite firms' own QA checks, they failed to identify missing information or that there were potential issues with the suitability of advice given, as covered in Section 3. The risk of harm to consumers arising from poor advice could also be compounded and prolonged by a lack of any annual/ongoing reviews to identify issues on a timely basis as noted in the 'Periodic review of suitability' findings.

2.37 Where firms hold inaccurate MI or their systems and controls fail to identify issues, they are unlikely to adequately manage risks posed by their business and to their customers. Firms must show they have robust systems and controls and consider appropriate information to monitor customer outcomes. This includes having a comprehensive register recording the advice given. This will help firms manage their business and respond to any FCA requests for information to monitor their compliance with regulatory obligations.

2.38 The Duty also sets clear requirements and expectations on monitoring and reviewing customer outcomes. Going forwards, it is unlikely firms would be able to measure or deliver good customer outcomes without adequate or accurate MI.

Good practice

One firm had clearly recorded in its Statement of Responsibilities where accountability for decumulation advice lay. Third-party relationships were also allocated an owner who took responsibility for oversight of the contract and carrying out risk assessments. Key performance indicators (KPIs) were also maintained and monitored on external services, feeding into a risk governance board.

Poor practice

We found inaccuracies in two thirds of the files requested for one firm, despite the files having been checked under the firm's QA process. For example, we received accumulation advice files instead of retirement income files, advice that had not proceeded or had not been presented yet, files that had not been QA checked but were recorded as such and files for annuity advice that had been recorded as drawdown (and vice versa).

Chapter 3

Key findings: advice files

3.1 We identified concerns in relation to the suitability of advice in several instances. These included, but are not limited to, the risk level of the investment not aligning with the customer's risk profile, unnecessary or excessive charges and penalties being incurred, the recommended product not meeting the customer's objectives, and a loss of safeguarded benefits or valued features.

3.2 Nearly a third of the files requested for review had missing documents or significant gaps in key information, which meant they could not be assessed for suitability. Our observations about firms' control frameworks and the inaccuracy of advice registers show that record keeping is inadequate for many firms.

3.3 Where firms have designed their CRP to meet the needs of their customers, with appropriate oversight and training in place, this is likely to lead to consistently better outcomes. For most firms, we saw no clear correlation between the appropriateness of their CRP and suitability of advice. However, generally, where we found deficiencies in advice files, either relating to missing documents or gaps in fact finding, firms were also more likely to have weaknesses in their CRP design or governance.

3.4 We assessed the suitability of advice files using the Retirement Income Advice Assessment Tool (RIAAT), developed for the purpose of the review. The tool adopts a similar approach to the Defined Benefit Advice Assessment Tool (DBAAT), though has been adjusted to reflect nuances and requirements that apply to retirement income advice. It has also now been updated to take account of the Duty.

Advice file review results

3.5 We requested 100 advice files from the 24 firms. The number of files sought was determined by the volume of retirement income advised transactions shown on the completed advice registers. They reflected a range of advice scenarios to ensure we could assess advice across drawdown, annuity and other relevant solutions. The number of files ranged between 2 and 9 across each firm. Due to inaccuracies in advice registers (as set out at paragraph 1.44), some firms were asked to provide additional files.

3.6 Given the number of files and the non-random selection basis, the following file review results cannot be considered representative of the market. But they do provide some additional insight, on top of other elements of the review, to show how retirement income advice is delivered in practice.

3.7 Out of the 100 files obtained:

- 21 files were out of scope (for details see Annex A paragraph 12)
- 10 files had missing documents, for example, no fact find, suitability report or ceding scheme details and could not be reviewed at all

- 2 files were not reviewed because we had already reviewed an appropriate number of files for the same firm and found the advice to be suitable
- 67 files were assessed using the RIAAT

3.8 Review results of the 67 files showed:

- 45 files (67%) were assessed as suitable
- 7 files (11%) where we had concerns about suitability
- 15 files (22%) had (MIGs) and could not be fully assessed as firms had not collected the necessary information

Information collection

3.9 The quality of firms' fact finding and know your customer processes is essential to the delivery of good outcomes. Fact finding should be complete, with no gaps, inconsistencies or missing relevant information. Firms must get the necessary information to assess suitability before making a personal recommendation. This includes knowledge and experience, financial situation and investment objectives.

3.10 Some firms had robust fact finding, collecting detailed information about their customers before giving advice. Others did not show they had collected the necessary information and had numerous deficiencies in fact findings (as set out at paragraph 1.44).

3.11 Firms will be better able to show they have properly considered all relevant factors about their customers if they have collected sufficient information. Without doing so, firms risk giving unsuitable advice and making recommendations that do not meet their customers' needs. Firms who receive complaints, may also not be able to evidence that advice is suitable. If firms do not collect the necessary information, they must not make a recommendation.

3.12 Firms should clearly record how customer investment knowledge and experience and understanding of investment risk has been established to support any recommendation. They should also recognise that needs, including income, are likely to change during the period up to and after retirement, and make allowance for this when giving advice. Expenditure analysis should also reflect likely changes so that any forecasts produced are reflective of this. These will help firms recommend income withdrawal levels that are more sustainable.

3.13 In some instances, firms provided our review with more than 1 fact find. This was helpful where ongoing advice had been provided to a customer following earlier retirement income advice. However, we found on several files that information between fact finds was inconsistent and differences had not been resolved, so it was not clear whether the customers' circumstances had drastically changed, or there were omissions in either the earlier, later, or both fact finds.

Disclosures

3.14 Disclosure is essential for customers to have the knowledge to understand enough about a retirement income product or service, how it works, its benefits, risks and costs to be able to assess the recommendation.

3.15 Firms' failure to disclose key information means customers may not have the information they need, when they need it. They should, therefore, ensure they provide their customers with relevant information in good time to ensure they can make an informed decision.

3.16 We found a high number of disclosure failings across files. It is concerning that so many files did not show adequate disclosure.

- In 22 files the Initial Disclosure Document (IDD) appeared to have been provided either shortly before advice was given or with the suitability report setting out the advice. The IDD sets out the products and solutions the firm provides and the charges the customer would be expected to pay.
- In 9 files information about investment funds had not been given to customers.
- In 11 files the firm did not explain the risk of capital erosion, the potential for annuity rates to be worse in future, or that income levels might not be sustainable.

Loss of guarantees or features

Poor practice

A customer switched 3 plans to take income using drawdown. Of the 3 plans, 1 had a guaranteed annuity and 2 had Guaranteed Annuity Rates (GARs). Plans with these types of guarantees are referred to as safeguarded benefits.

The guaranteed annuity plan provided a minimum level of income at the age of 65. The GARs provided a guaranteed rate of income at any retirement age (when starting to take the GAR income) from 65 up to 75. The firm compared the income available from the GAR and guaranteed annuity against that from a current annuity rate (CAR). Advice to switch was based on the CAR income being slightly higher at the time of advice than the guaranteed annuity and GARs.

However, giving up guarantees on the GAR plans may not have been in the customer's best interests. The firm did not show they had considered all possible scenarios. While the CAR was higher (at time of advice), it would be liable to fluctuate up or down in future in line with market changes. However, the GAR would not be affected by market rates but would increase based on the customer's age. So, the income available from the GAR plans would be higher in future. The GAR policy terms showed the rate of income available depended on the age the customer started to take the GAR income, with the rate increasing for each year retirement was deferred, up to age 75. So, if income was taken from the GAR at the age of 66, there would be a higher rate than would be available if taking income at 65.

Further, only 1 of the 3 plans needed to be switched to achieve the customer's income objectives. Retaining the other 2 plans with the ceding scheme would have provided the customer with the flexibility to take advantage of the GARs in the future.

Poor practice

The firm recommended a customer switch 3 with-profit plans into drawdown. All 3 plans had guaranteed growth rates (GGRs) which meant they would have continued to grow at a set rate each year if held until the selected retirement date with the original scheme. The plans were also liable to incur market value adjustment (MVA) penalties through the switch.

Only 1 of the 3 plans needed to be switched to achieve the customer's stated income objectives. Leaving 2 plans with the existing scheme meant that no MVA would have been incurred on these and allowed the customer to benefit from the minimum guaranteed returns of the GGR feature. The file also showed 2 ATR assessments were completed, one of which showed a conservative ATR and the other showed a balanced ATR, which was used as the basis for advice. There was no record explaining the change.

Disclosure of tax

Poor practice

The customer wanted to access an additional sum of money for a specific need. The file showed all the income for the customer and their partner had been recorded. Discussions regarding tax referred to a 20% tax deduction but failed to make clear the lump sum would push the customer into the higher rate tax threshold.

The tax implications of income recommendations should be clearly disclosed. Had the tax position been made clear the customer may have opted for an alternative solution such as spreading the withdrawal over 2 tax years or withdrawn a lower amount from their pension funds.

Risk profiling: ATR and CFL

3.17 There were deficiencies with the way that ATR and CFL was assessed or recorded on many files:

- In 3 out of 67 files ATR was not up to date or was incomplete either because: i) the only ATR on file had been assessed 6 years previously, ii) it was inconsistent with the stated objectives, or iii) it had not been fully completed.
- In 9 out of 67 files the CFL assessment was incomplete. Of these, 5 cases had no completed CFL assessment, and in 4 cases the CFL recorded was inconsistent with the customer circumstances.
- For 6 out of 67 files the knowledge and experience of customers was not established in 4 cases and inconsistent in 2 cases.

3.18 The findings in this area are concerning. Where risk profiling is incomplete or out of date, there is a higher chance of unsuitable advice. Customers may be invested in solutions not aligned to their risk profile or tolerance level and, as a result, could incur financial loss.

Poor practice

One file showed the customer's income needs would increase significantly once their ISA funds ran out. Although the advice highlighted the risk of money running out, the output of the CFM was quoted in the suitability report and stated there was a 95% chance the fund would last until 'average' life expectancy. It is unclear whether the customer understood what this meant, what the risks of running out of money earlier were, or the implications of the customer living longer than average life expectancy.

In addition, while the file showed there was discussion about the potential fall in income, the CFL did not illustrate the impact of any reduction in income on the customer's standard of living.

Consideration of annuity options

Poor practice

The customer wanted to grow their pension to help with the cost of living and cover an income shortfall to state pension age. The requirement was for a sustainable income to supplement their other income and benefits. The fact find had contradictory information in places, noting retirement would be at 67, although the illustrations on file were to age 75.

There was no evidence the adviser had explored alternative options before recommending drawdown. The suitability report made no reference to annuities, including short-term annuities, so the customer may not have made a fully informed decision. The file also did not show whether any of the customer's benefits were means-tested and could be lost or reduced by drawing income from their pension.

Poor practice

In another example, the customer had several existing plans and wanted access to pension commencement lump sum (PCLS) only, with no immediate need for income. Some of the existing plans had a protected PCLS entitlement of 59%.

Under the ceding scheme it was not possible for the customer to take PCLS only unless the balance of the funds (after PCLS) were used to purchase an annuity. To take advantage of the higher PCLS, the adviser recommended the customer access PCLS and purchase a lifetime annuity. Plans that had no protected PCLS were switched to a SIPP.

The projections showed there would likely have been a shortfall of approximately £5,000 per annum at the intended retirement age. However, the annuity income was surplus to requirements and resulted in a higher taxable income.

No consideration appears to have been given to using the funds to purchase an increasing/inflation linked annuity. This would have resulted in a lower level of initial income (which would have still been surplus to requirements but chargeable to less tax) and provided a greater level of income post retirement when the customer's income need would be greater.

Higher charges incurred on switching

Poor practice

The customer wanted to access funds from pension savings to clear a mortgage. Existing assets included a personal pension plan (PPP) and an existing drawdown plan.

A recommendation was made to switch the existing drawdown and PPP to allow flexible access to pension benefits. The platform and fund charges were higher after switching than with the customer's existing drawdown plan.

The main reasons for the switch recommendation were due to the existing provider not providing annuities and the customer's desire for 'smoothing' of investment returns (through a with-profits fund).

However, the customer was not looking for an annuity at the time of advice and there was no record of discussion showing how the projected growth and higher charges in the with-profits fund had been weighed up against the lower charges of the customer's existing plan.

Chapter 4

Other findings

4.1 In this section, we set out other findings arising from our review of firms' CRPs relating to the design and delivery of their advice process, and governance and oversight arrangements. We include further examples, set against current requirements, to help firms deliver outcomes that meet the needs of customers in decumulation.

Design and delivery of advice process

Nature and scope of advisory services – Objective: The firm's retirement income advice services are clearly defined and appropriate for its customers.

4.2 Where firms understand their customers' needs, they will be better able to meet their expectations. Any limitations in the solutions or types of service available should be made clear to customers. This includes whether firms have minimum fund value requirements or other potential barriers to their customers being able to receive advice.

4.3 Firms are required to clearly explain the nature of their advice services, including whether they hold themselves out as independent or advise on a limited range of products. For advice to be considered independent, firms should be able to show they have a diverse range of products to meet customers' needs.

4.4 Whether advice is independent or restricted, firms may also, depending on customer objectives, provide transactional advice. This means advice is focused on a specific objective and may be a type of streamlined advice (see FG17/8). For example, drawing income from a specific pension pot, without any wider or ongoing consideration of the customer's circumstances or other objectives. Conversely, holistic advice would look more broadly at all potential areas, including other non-pension savings assets, financial objectives and areas such as tax planning.

4.5 The data survey indicated:

- 592 firms provided holistic advice to 80% or more of their customers. This means that for most customers firms considered all areas of financial planning where the advice covered all available assets and wider circumstances where relevant, such as tax or inheritance.
- By contrast, 725 firms indicated less than 10% of their customers received transactional advice.

4.6 In terms of fund values, 84 out of 977 firms indicated they had a minimum fund value requirement for decumulation advice. Of these:

- 11 firms only advised on total assets of £250,000 or above
- 62 firms advised on a minimum assets value between £50,000 and £249,999
- 11 firms advised on a minimum assets value of less than £50,000

4.7 From the CRP reviews, we saw most firms were able to elaborate on the nature and scope of their services. This included the type of customers they would be able to help, and the type of advice available. Some firms had a policy to refer customers who sat outside their minimum requirements to an alternative firm, both at the lower and upper end of fund values. Over a third of firms, however, did not show how they ensured their advice services remained appropriate on an ongoing basis for their customers.

4.8 Some firms understood the importance of making customers aware of the services they would receive. But other firms appear not to have given sufficient attention to this or revisited existing arrangements. Customers receiving services that do not meet their needs may not receive good outcomes in line with their objectives.

Good practice

One firm clearly set out the 4 different service levels it provided, showing what was included at each level, and how the service offered was checked annually. They included examples of the additional support available to customers and highlighted any limitations before advice was given.

Another firm had a clearly recorded process for ensuring that customers who did not meet its minimum fund value requirement were referred to MoneyHelper for guidance, while high net worth customers were referred to another firm.

Poor practice

One firm's documentation showed various service levels were provided. However, these did not align with customer segmentation and corresponding fund values set out in the documents describing the services provided. This meant the firm's customers were at a high risk of receiving services that did not meet their needs.

Lifetime lending – Objective: Firms have appropriate controls in place to ensure lifetime lending recommendations are suitable for decumulation customers.

4.9 Our review of lifetime mortgages, in September 2023, found concerns with financial promotions and suitability of advice. This included poor consideration of borrower's income and expenditure, and incentivising sales at the expense of good customer outcomes. Firms providing advice on these products should consider these findings.

4.10 Using FCA regulatory returns, we identified 962 firms (21%) that provide retirement income advice had also advised on lifetime lending products during 2022. Over this period, 847 firms (88%) had sold 10 or less lifetime mortgages, and 38 firms (4%) had sold 20 or more.

4.11 As part of the CRP reviews, we considered how lifetime lending fitted into firms' retirement income advice models. We assessed whether firms took a holistic approach to advice for consumers in later life, and whether there were potential conflicts that could drive inappropriate advice. We found that, generally, firms approached lifetime lending as a distinct and separate area of advice, only tending to bring this into consideration as a last resort for relevant customers.

Adviser charging model – Objective: The firm's adviser charging model is appropriate for its customers, transparent and communicated clearly.

4.12 The long-term nature and complexity of retirement income products make fair charges and continued value over the life of a product important factors. This is because charges can erode a customer's investment pot and impact the amount and length of time that retirement income could be drawn.

4.13 We have set out various requirements and expectations relating to adviser charging and remuneration. Firms are also required to disclose their charging structure in writing and in good time to the customer before giving advice. When calculating the cost of adviser services, firms should consider the value of all charges that would be payable if the customer proceeded with the recommendation.

4.14 We considered whether fees were reflective of the different service levels provided by each firm. Through advice files we also assessed whether there was any evidence of excessive fees or product charges. We found that the level of charges recorded in firms' CRPs broadly aligned to the work involved in delivering the different levels of service.

4.15 From the CRP reviews, we saw 21 of the 24 firms (88%) had set out their charging structures transparently and in a way customers could understand. It was generally clear how charges varied for initial versus ongoing advice, different fund values and the type of service provided. Several firms had considered circumstances where charges might not represent fair value for customers and would apply a cap or consider a reduction. Others indicated they would monitor the service levels and fees on an ongoing basis and prompt customers where a lower service level and fee might be more appropriate.

4.16 For a small number of firms, however, we found their charging structures were not entirely clear. They did not appear to account for the differing needs of individual customers or there was an element of discretion in how charges were set. This could lead to inconsistent outcomes with some customers charged more than what might be considered reasonable for the service provided.

4.17 A key consideration for firms is whether they can continue to provide a service where customer funds reduce to a level that no longer supports an advice fee. One firm stated it is considering a review of its charging structure to take account of fund depletion.

Another indicated that, in view of its ongoing relationship with customers, it would likely continue to provide an ongoing service even where the fund size was below the firm's minimum requirement for ongoing advice.

Good practice

One firm had introduced a 'decency cap' limiting the total fees that customers with large fund values would pay for ongoing services.

Another firm provided clear examples and tables with a reckoner tool to help illustrate charges. All service fees were reviewed annually to ensure customers were only paying fees that were appropriate for the service levels received or required.

Poor practice

The key charges document for 1 firm included a range of charges indicating that charges would be calculated based on the scale and complexity of the advice needed. However, it was not possible to determine from this how charges would be calculated in practice. When asked to clarify this, the firm was unable to do so.

Platform selection – Objective: The firm's choice of investment platforms meets its customers' needs.

4.18 Platforms help firms administer customer assets. Firms may use these to manage investment portfolios, buy and sell investments for their customers and make use of any investment research that platforms may provide. Some platforms also provide tools that firms' advisers or customers can use to help support financial planning. Firms may set up and use their own platform, rather than that of a third party, or make use of a white labelled arrangement (which means the platform is provided and may also be run by a third party but branded as the firm's own). This type of arrangement may give the firm more control over the charges and services the platform provides its customers.

4.19 When using a platform service, firms are required to ensure there is no bias in the presentation of products for their customers. Where firms hold themselves out as acting independently and use a single platform service, they must also ensure this does not conflict with the requirement to show they have a sufficiently diverse range of products and providers.

4.20 Customers in decumulation will have different needs and objectives to those in accumulation. Whether firms use their own, a white labelled or a third-party platform, they should be able to show they have considered whether the features and services platforms provide reflect the needs of customers in decumulation.

4.21 The data survey indicated 843 out of 970 firms held customer assets on a platform, but 127 firms did not. Further, 754 firms stated they selected platforms specifically to meet the needs of customers in decumulation. Most firms used multiple platforms, with 65 indicating they had only 1 platform and 120 firms using 10 or more.

4.22 A total of 764 firms identified cost as one of the key considerations when selecting a platform. Service levels and functionality of the platform were factors for 656 and 635 firms respectively. The range of investment choices was a key feature for 515 firms.

4.23 From the CRP reviews, we saw all 24 firms used more than 1 platform. In some cases, firms had clearly recorded when certain platforms would be considered for different customers. A small number of firms had robust procedures for assessing whether platforms were appropriate for their customers. They showed detailed due diligence was carried out, with frequent monitoring and reviews to ensure the platforms continued to meet the needs of their customers. However, over a third of firms did not carry out regular reviews to ensure the platforms continued to be appropriate.

4.24 The data survey also indicated 31 firms had their own platform, with 20 of these being white labelled. Our CRP reviews showed 5 of the 24 firms (21%) had their own or white labelled platform. Generally, these firms were cognisant of the potential conflicts that might arise, with 2 firms specifically putting in controls to mitigate against this. We did not see evidence of specific bias in platform selection, although we noted a small number of firms relied primarily on 1 platform for their customers.

Good practice

One firm reviewed its platforms at least annually covering both panel and off panel platforms. External screening was carried out by a specialist firm against certain criteria to produce a shortlist, which would be considered by a working group overseen by a committee.

Another firm produced a yearly report on its panel platforms outlining the due diligence carried out, why each platform was chosen, benefits to customers and the customer groups each platform would be suitable for. The firm completed thorough ongoing research into its selected platforms while also monitoring the rest of the market.

Poor practice

One firm was unable to provide evidence of its last platform review or explain how it continued to meet the needs of its customers.

Another firm acknowledged its platform did not fully meet the needs of its customers in decumulation but did not appear to have taken any steps to address this.

Use of third-party tools/service providers – Objective: The firm completes effective due diligence and oversight on third-party service providers and tools.

4.25 Third parties play an important role, providing firms with tools and services to help them manage their business more effectively and support delivery of good advice. Firms should satisfy themselves that any service providers they use are competent, and tools are fit for purpose. Given the complexity of financial advice, many firms rely on external assistance, particularly for software tools that help to shape their recommendations.

4.26 The data survey indicated most firms use third-party tools or services; only 46 out of 977 firms (5%) did not, specifically (more than one option might apply for each firm):

- 842 firms use risk-profiling tools
- 817 firms use investment research tools
- 765 firms use CFM tools
- 596 firms use CFL tools
- 535 firms outsource compliance

4.27 From the CRP reviews, we saw 12 of the 24 firms (50%) completed research and due diligence on the providers of tools or services. A small number of firms completed robust checks on third parties with regular reviews, usually annually. Most of these had clear service agreements in place. However, a handful of firms could not provide a copy of any agreement, so the expectations were not clear. Some firms had relied on compliance consultants, external research or trade bodies to determine whether tools were appropriate but did not record the information used to guide their selection or why they considered any third parties were suitable for their business.

Good practice

One firm had an overarching master agreement with all third-party providers covering the contractual terms, service levels and termination clauses. It completed due diligence on new and existing providers on renewal. The firm also considered how it would be able to transition away if needed, with a detailed exit plan setting out how this could be achieved, and the circumstances under which this might arise.

Poor practice

One firm did not complete any due diligence and relied primarily on industry events and conferences to decide which tools or service providers to use.

Decumulation solutions/investment selection – Objective: The firm's investments, including any model portfolios, are appropriate and correctly aligned to customers' risk profiles.

4.28 The needs and objectives of customers in decumulation are likely to vary, depending on the level and frequency of income to be drawn. Products and underlying investments firms use to deliver retirement income, including model portfolios, should meet the different needs of their customers.

4.29 Firms are required to ensure the recommended transaction meets the customer's investment objectives and they have the necessary experience and knowledge to understand the risks involved. Where recommendations for drawdown are made, firms should also consider investment pathways. Pathways were introduced following the Retirement Outcomes Review, primarily for non-advised customers accessing their pension savings but who were focused on withdrawing their tax-free cash and not engaging with investment decisions.

4.30 The data survey indicated:

- 131 out of 977 firms recommended an investment pathway for a total of 3,557 customers
- 282 out of 941 firms' investment portfolios were constructed specifically to meet the needs of customers in decumulation
- 8 firms stated they had 1 portfolio
- 201 firms stated they had between 1 and 10 portfolios

4.31 From the CRP reviews, we saw 16 of the 24 firms' (67%) range of investment solutions were aligned to their customers' objectives, income needs and risk profiles. Some firms had a CIP or similar in place where they detailed the investments used, investment objectives, forecast returns and investment strategies. They also carried out regular reviews of funds/portfolios, including asset allocation to ensure these were performing in line with expectations.

4.32 Some CRPs showed firms would only recommend secure income for risk averse customers. From our review of firms' advice registers, we noted 95% of customers identified as risk averse were recommended annuities. This figure excludes customers that only wished to access PCLS with no income need. A small number of transactions showed drawdown was recommended for risk averse customers, while some were recorded as being solely invested in cash at annual review meetings.

4.33 However, 6 of the 24 firms (25%) did not record how the investment funds they use met the needs of their customers or review whether investments remained appropriate. One

firm had decided to change the investment strategy for all its funds, but no rationale was recorded as to how or why that decision was made. Another firm relied on risk profiling software for fund recommendations that matched the ATR of the customer but did not show that it had considered or reviewed the basis on which these would be suitable for its customers.

Good practice

One firm worked with providers, following specific criteria to ensure investments matched the needs of its customers. The firm evaluated product performance using specific tools and portfolios were reviewed quarterly and annually, with records kept of meeting minutes.

Poor practice

One firm relied exclusively on investment software to identify investment solutions for its customers. It did not have a CRP, CIP or any other document recording the funds that might be appropriate for its customers. There was also no consistent approach as advisers could select any fund that matched the ATR of the customer. Additionally, there was no review in place assessing whether investment solutions continued to be appropriate.

Governance and oversight of retirement income advice

Training and competence (T&C) – Objective: The firm has a T&C scheme or other arrangement in place to ensure appropriate assessment and supervision of advisers.

4.34 We have set out clear requirements and expectations on firms to ensure their employees have the relevant knowledge, skills and expertise necessary to fulfil their responsibilities. They should have effective recruitment, training and oversight arrangements in place to help advisers achieve and maintain competence to support delivery of good outcomes for their customers.

4.35 From the CRP reviews, we saw all 24 firms had appropriate recruitment processes, including due diligence checks where relevant. Most firms had recorded the training and support provided for advisers, although in an isolated example, it was not clear what training could be expected of advisers, or how this would be delivered.

4.36 The sample included a handful of small firms, which were owned and run by a sole trader or a small number of directors. Some of these were unable to show what training or

development they undertook to ensure they kept their own knowledge and skills up to date, although 1 firm was able to evidence continued development.

4.37 A total of 19 of the 24 firms (79%) included some specific training on retirement income advice, with some firms specifically covering topics such as safeguarded benefits, including GARs. A small number of firms did not evidence how they ensured supervisors were trained and assessed for competence to oversee, coach and assess advisers.

4.38 The data survey also indicated most firms completed QA on a proportion of advice files on an ongoing basis. The mean and modal value of the percentages recorded in the data survey were 10%, so most firms were checking 10% of advice files. However, 77 firms did not provide a figure for this, so it is unclear whether they did not complete any QA, or they did not have the relevant information.

4.39 Firms are more likely to be able to show that suitable advice has been provided to customers where files are complete and clearly record the advice. Robust QA can help firms assess whether advice meets consistent standards, is suitable and that information provided to customers is clear, fair and not misleading.

4.40 From the CRP reviews, we saw most firms had set a minimum requirement for the number of advice files to be checked. Where agreements were in place with outsourced providers, generally we could see what the expectation was in terms of number and frequency of checks. In 1 small firm, however, while there was an agreement with a compliance firm to provide checking, it was not clear what the terms were and what actions would be taken if files were found to require further work to meet expected standards.

Good practice

One principal firm had a comprehensive and clear process describing how advisers and ARs would be supported from recruitment to achieving competent adviser status and beyond. Advice on complex or high-risk recommendations would only be permitted by approval from the principal firm and with a requirement for specific training and qualifications.

Another firm completed reviews of advice files and identified trends through QA which were used to identify themes that required further attention to ensure advice was suitable.

Poor practice

Two firms had arrangements with external compliance firms to provide oversight and QA services. The terms of the arrangements and how the providers had been selected or appointed were not clear. One of the firms was unable to explain precisely what service was provided by the outsourced provider apart from providing a generic overview of the T&C scheme the outsourced firm had put in place.

Adviser incentives – Objective: The firm has appropriate remuneration policies, procedures, and practices to promote effective risk management.

4.41 The way advisers are rewarded can lead to a potential bias in the products and solutions that they recommend. Firms should ensure that any incentives in place encourage good behaviour and lead to good outcomes for their customers. Firms are required to act honestly, fairly and professionally according to the best interests of the customer.

4.42 The data survey showed that most firms set adviser incentives on a range of factors. For example, QA scores, customer outcomes and KPIs. The data survey indicated 295 out of 940 firms had a clawback policy in place for incentives paid to help mitigate against the risk of poor advice.

4.43 From the CRP reviews, excluding 4 owner run firms, we saw 16 of the 20 firms that employed advisers had an agreement in place showing how remuneration would be calculated. These were linked to KPIs to incentivise factors such as suitability of advice and good customer outcomes. For 2 firms, however, there were no written remuneration policies in place showing how pay would be calculated, although the firms' stated pay was linked to KPIs.

Good practice

A principal firm had a detailed remuneration and incentives scheme in place, which its ARs were also required to follow. It provided a template asking for both qualitative and quantitative factors to be used, ensuring that risks were recognised and appropriately managed. All AR arrangements needed the agreement of the firm and were subject to annual reviews, comprising assessment of various factors, including customer outcomes.

Poor practice

At 2 firms, some or all advisers were self-employed. For 1 of these firms, pay was also linked to fees generated by assets under management (AUM). KPIs were in place to monitor adviser performance and there was a clawback arrangement in place. However, neither firm appeared to have controls in place to manage any inherent risk. Linking pay to AUM has the potential to incentivise recommendation of investment-based solutions such as drawdown rather than annuities. Firms should manage this risk.

Treatment of vulnerable consumers – Objective: The firm ensures vulnerable customers are treated fairly during the advice process.

4.44 Firms should understand and be alert to potential signs of vulnerability in their customers. Vulnerable customers should be assessed as individuals without applying a one size fits all approach to certain groups. Where potential vulnerabilities are identified, firms should be able to respond accordingly, making reasonable adjustments to support their needs.

4.45 We have published final guidance on the fair treatment of vulnerable customers. This reminds firms they should understand the needs of their customers, ensure employees have the right skills and capabilities to recognise vulnerabilities and monitor whether they are meeting the needs of these customers.

4.46 The Duty builds on this guidance. We expect firms to be able to identify when groups of customers, such as customers with characteristics of vulnerability, receive systematically poorer outcomes. This may indicate that the firm is not meeting the Duty.

4.47 The data survey indicated:

- 952 out of 958 firms had implemented policies that helped them to identify vulnerable customers during initial or ongoing advice
- 6 firms stated they did not have a policy in place

4.48 The data survey also indicated most firms had made reasonable adjustments to help vulnerable customers, including the following adjustments (more than one option might apply for each firm):

- 957 firms would include family or friends in advice meetings
- 937 firms would provide home visits
- 929 firms would use face to face advice instead of online/paper
- 770 firms would provide telephone advice
- 743 firms would provide more touchpoints/interactions
- 624 firms would use more concise or clearer documentation

4.49 From the CRP reviews, we saw 21 of the 24 firms (88%) had considered vulnerabilities and put in place steps to help their employees identify these customers and provide appropriate support. Specific training had also been implemented by most of the firms with regular updates and assessments. A small number of firms had a generic vulnerable customer policy in place, with no indication these had been properly considered, or implemented for the relevant business.

4.50 It was not clear for almost half of the firms how they would be able to properly monitor vulnerable customer outcomes. Despite having policies in place, they did not appear to collate any data to be able to measure or track customer outcomes.

4.51 Firms should ensure processes are implemented effectively. We found that firms have thought about the needs of vulnerable customers. But our findings on advice files and periodic review of suitability suggest that firms are not putting these considerations into practice consistently. Failings in firms' control frameworks are also likely to impact how effectively firms can monitor and respond to potential vulnerabilities.

Good practice

One firm used analytical call software to help identify signs of vulnerability that might otherwise be missed by advisers. The firm's advice guides contained information on how advisers could support customers. Where there are complex considerations, the firm runs outcome review case clinics by subject matter experts to agree the best way to support the customer.

Another firm put all its employees through a detailed training programme to identify early signs of dementia on calls, and how to identify physical and visible signs during face-to-face meetings. Sessions were also held for employees to put themselves in the shoes of customers and identify where customers might be susceptible to financial abuse.

Poor practice

Two firms had generic vulnerable customer policies in place. One policy was almost identical to that of another firm in the review, suggesting it had been provided by a third party, but which had not been tailored or adapted for the firm, and there was no evidence the policy had been applied in practice.

Conflicts of interest – Objective: The firm has a clear policy in place to manage any conflicts of interest.

4.52 Firms are required to take all appropriate steps to identify, prevent and manage conflicts of interests that may arise while providing a service that may damage the customer's interest. These include where the firm is likely to make a financial gain at the expense of the customer or has an interest in the outcome of a service provided or transaction carried out on behalf of the customer.

4.53 We considered whether there were any potential conflicts across all areas of the advice process. This included adviser incentives, the retirement income solutions firms provided, and the choice of platforms or investments.

4.54 From the CRP reviews, we saw 20 of the 24 firms (83%) had an appropriate conflicts of interest policy which recognised where conflicts might exist and set out how to monitor and mitigate these. For 2 firms, however, there was no indication that a policy was in place, with 1 firm acknowledging it had considered potential bias but that there were no conflicts in practice. Of the other 2 firms, 1 had a policy which did not cover all potential conflicts, while the other had only a generic policy which did not relate specifically to the firm.

Good practice

One firm showed they monitored potential conflicts regularly, with at least quarterly reviews carried out on how conflicts were identified and assessed by management within the firm. The conflicts of interest register recorded specific examples of where potential conflicts might exist. This included whether remuneration might influence advice and lead to product or fund bias. Relationships with third parties and personal relationships between colleagues and competitors were also captured.

Poor practice

One firm's conflicts policy focused solely on a part of the firm's business and did not consider or account for conflicts that existed with its advice business. Failure to recognise or mitigate against conflicts put customers at risk of harm through potentially paying higher charges or investing in solutions that might not meet their needs.

Chapter 5

The Consumer Duty

5.1 The Consumer Duty (Principle 12 and PRIN 2A) applies to firms providing advice to retail customers, including firms involved in the retirement income advice market. It requires firms to act to deliver good outcomes for retail customers.

The Duty Principle and cross-cutting rules

5.2 The meaning of what is required under Principle 12 is defined by 3 cross-cutting obligations (see PRIN 2A.2) which require firms to:

- act in good faith towards retail customers
- avoid causing foreseeable harm to retail customers
- enable and support retail customers to pursue their financial objectives

Products and services outcome

5.3 The Duty sets rules for the manufacture and distribution of products and services (see PRIN 2A.3). Firms providing retirement income advice will be manufacturers of their advice services, and distributors of the service and of products.

5.4 Among the relevant requirements, manufacturer firms must:

- specify their target market for the service
- assess all relevant risks to the target market
- design the service to meet the needs characteristics and objectives of the target market
- ensure the design of the service avoids causing foreseeable harm to the target market and doesn't adversely affect groups of customers in the target market, including those with characteristics of vulnerability
- take all reasonable steps to ensure the service is distributed (only) to the identified target market
- regularly review whether the service meets the needs, characteristics and objectives of the target market, including customers with characteristics of vulnerability within the target market
- monitor whether the distribution strategy remains appropriate and whether the service is being sold to customers within the target market or is reaching customers outside the target market

5.5 Firms will also be acting as distributors, distributing their advice service as well as any recommended products. There are requirements for distributor firms under the products and services outcome. For example, firms need to understand the product or service, the target market and the intended distribution strategy, then ensure the product or service is distributed in line with the needs, characteristics and objectives of the target market.

5.6 Where manufacture or distribution of a product or service is subject to the similar requirements in PROD, firms must comply with the rules in PROD rather than the Duty requirements under the products and services outcome (see PRIN 2A.3.24R to 28R). In certain specified scenarios, firms may also elect to follow certain rules in PROD to comply with this Duty outcome (see PRIN 2A.3.29G).

The price and value outcome

5.7 Requirements under the Duty's price and value outcome (PRIN 2A.4) again differ for manufacturers and distributors.

5.8 A manufacturer firm must ensure its retirement income advice services provide fair value for retail customers in the target market for those services. Fair value is when the amount customers pay for a service is reasonable relative to the benefits they can expect.

5.9 Manufacturer firms are also required to carry out a value assessment, and then review that assessment on a regular basis. The assessment must consider various factors, including:

- the nature of the service, including its quality and any benefits that customers can reasonably expect
- any limitations that are part of the service
- the expected total price to be paid by customers – this would include the fees and charges of the firm, but also consideration of other charges that could be expected (such as the likely charges for products recommended under the service)
- any characteristics of vulnerability of customers in the target market and the impact these characteristics could have on the likelihood that customers may not receive fair value

5.10 Distributor firms are also subject to rules on price and value. Among other requirements, firms must not distribute a product or service unless the distribution arrangements are consistent with providing fair value to retail customers. To comply with this, they must understand the value assessment of the manufacturer and consider whether other charges added through the distribution chain would result in the product or service ceasing to offer fair value to customers.

The consumer understanding outcome

5.11 The Duty sets out requirements on firms in relation to retail customer understanding (see PRIN 2A.5). This includes a general requirement that firms ensure their communications meet the information needs of retail customers, are likely to be understood by them, and equip them to make effective, timely and properly informed decisions. This is relevant to how firms communicate the suitability of retirement income advice. Firms must also ensure their communications, for example relating to the features, costs, benefits and risks, are likely to be understood by their customers and, where appropriate, test and monitor communications to identify whether they are supporting good outcomes for retail customers.

The consumer support outcome

5.12 The Duty also requires firms to provide support that meets their customers' needs, so, among other considerations, they can use the firm's services as reasonably anticipated (see PRIN 2A.6). The cross-cutting obligation on firms to enable and support their customers to pursue their financial objectives is also relevant in this context (PRIN 2A.2.14R). Firms should ensure the support is provided at the right time and is appropriate for customers deciding how to take decumulation benefits, including drawdown.

5.13 Firms should also monitor the support they provide, take relevant feedback into account, and look for signs that may indicate that the design and delivery of their CRP and support is not sufficient to meet the needs of consumers. Where this is the case, firms should take reasonable steps to address any shortfall in the support they provide.

Annex A
Approach

Methodology

1. We engaged with FCA panels, trade bodies and some firms that provide consultancy services, software or tools to advisers in the market. This helped to inform our approach and areas of focus.

2. The review methodology comprised 3 components:

- a data survey sent to 1,275 firms for a market-wide view
- desk-based reviews of a sample of 24 firms
- reviews of samples of advice files for the 24 firms

Review sample

3. Based on the Product Sales Data reported by providers in 2022, we identified firms that advised on drawdown and/or annuity sales. We considered these firms to be active in the retirement income advice market and in the scope of the review. These included firms that had ARs, provided lifetime lending advice or had their own investment platform.

	Market-wide data survey		
Total review sample	Surveys issued	Surveys completed	Review of firms' CRP and advice files
Total of firms	1275	977*	24

*115 responses also received from the ARs of 78 principal firms.

Note: While the survey responses provide a representative view of the market, the sample of firms selected for the desk-based and advice file reviews is not statistically representative.

Data survey

4. The survey sample accounted for at least a third of the retirement income advice market. The total number of completed surveys are statistically representative of the market. Principal firms were asked to complete a separate survey for their ARs.

5. The data survey comprised 87 questions across a range of topics, including:

- how firms were structured
- the type of advice provided (holistic or transactional)
- whether they provided lifetime lending advice
- the adviser charging models in use
- the tools used (if any) and the approaches used for risk profiling, CFL and CFM
- the decumulation solutions advised on

6. The data survey included a mix of mandatory questions which had to be answered to move on through the survey, and optional questions which did not need to be completed. Some questions were conditional and only appeared where relevant, based on inputs to earlier questions.

7. Where we asked for data, we specified this should be for the 2022 calendar year, at firms' accounting reference date ending in 2022, or as at the year-end on 31 December 2022. Where firms did not have data relating to 2022, they could provide the most current information at the date of survey completion.

8. In several sections, firms could indicate data was not measured, was not recorded centrally or required manual extraction from files. This meant firms could still substantively complete the survey but omit some questions where they did not readily hold aggregated data. For example, on types of products sold, pot values, proportion of customers in different solutions and statistics about the advice given over the relevant period.

9. Since some firms did not answer all questions, statistics referenced in this report show relevant responses against the total responses received for a particular question. Only responses where relevant data was provided are shown. For example, if 500 firms responded with data for a specific question, but 400 selected a 'data not available' option or left a question blank, then figures would be shown as 'x' firms out of 500. Responses where firms indicated they did not have data have not been shown apart from the 'Periodic review of suitability' findings.

Desk-based review

10. We selected 24 firms for detailed assessment based on a mix of firm sizes and approaches to retirement income advice. Some of the factors we considered were:

- whether firms used their own or external platforms
- whether risk profiling was
- whether firms used CFM tools
- whether firms used a standard (house view) withdrawal rate for estimating sustainable income levels
- whether firms were principal firms with ARs

11. We requested information from firms about their CRP. This included information about the design and delivery of their advice process and the governance and oversight arrangements in place.

Advice files review

12. We focused on advice given to consumers wishing to draw regular or ad-hoc income, including lump sums from pension savings they had built up through individual and/or employer contributions, or the use of non-pension savings. This allowed us to see how firms assessed income needs, identified suitable solutions, and estimated the sustainable income that could be withdrawn from drawdown recommendations. We excluded several scenarios:

- encashment of PCLS only with no regular or ad-hoc income or lump sum encashments (as this did not provide insight into meeting income needs)
- beneficiaries looking to access pension benefits they have inherited
- advice on accessing pension savings due to a pension sharing order

13. We selected a total of 100 files for review across the 24 firms. The advice file reviews covered 'at retirement' advice when pots were accessed (crystallised) for the first time, and 'in retirement' advice where ongoing/further advice was given on previously accessed pots.

14. To select the files, we asked the 24 firms to complete an advice register. They were asked to record all retirement income advised transactions for the 2022 calendar year. Several firms indicated they had challenges in providing this information due to data needing to be collated from different sources/systems or manually extracted from individual files. Some of the advice registers we received were incomplete or inaccurate, as covered under 'Control framework' findings.

15. We selected files across a range of different advice scenarios including, for example, recommendations relating to annuities, drawdown or non-pension asset use. We also considered ceding scheme information, plan type (where recorded), risk profile and fund values to ensure a good mix of advice.

Annex B

Abbreviations

Abbreviation	Description
AR	Appointed representative
ATR	Attitude to risk
AUM	Assets under management
CAR	Current annuity rate
CFL	Capacity for loss
CFM	Cashflow modelling
CIP	Centralised investment proposition
COBS	Conduct of Business Sourcebook
CRP	Centralised retirement proposition
DB	Defined benefit
DBAAT	Defined Benefit Advice Assessment Tool
DC	Defined contribution
FAD	Flexi access drawdown
GAR	Guaranteed annuity rate
GGR	Guaranteed growth rate
IDD	Initial disclosure document
KPI	Key performance indicator
MI	Management information
MIG	Material information gap
MVA	Market value adjustment

Abbreviation	Description
PCLS	Pension commencement lump sum
PPP	Personal pension plan
PROD	Product Intervention and Product Governance Sourcebook
QA	Quality assurance
RIAAT	Retirement Income Advice Assessment Tool
RPPD	Responsibilities of Providers and Distributors for the Fair Treatment of Customers Regulatory Guide
SIPP	Self-invested personal pension
SYSC	Senior Management Arrangements, Systems and Controls Sourcebook
TC	Training and Competence Sourcebook
UFPLS	Uncrystallised fund pension lump sum

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