

Provocation document for Age UK Financial Services Commission, January 2014

About Just Retirement

Just Retirement is a specialist provider of financial services products for people at, and in, retirement. We are the leading provider of enhanced annuities and the second largest provider of equity release mortgages in the UK, and a member of both the Association of British Insurers and the Equity Release Council (the representative organisation for equity release providers, formerly SHIP).

1. What is your recipe for resilience for recent retirees?

- **Replace the current Open Market Option (OMO) rules for pension providers and trustees with new regulations to ensure “shopping around” is the default**
- **Increase access to financial intermediaries**

Increased numbers of DC pension customers are in or approaching retirement. The key to delivering resilience depends on policy measures that ensure these people are encouraged to use their accumulated savings and assets to best effect, to provide value and peace of mind in retirement.

The first key factor determining people’s resilience in retirement is the overall size of pensions available to fund retirement. Auto-enrolment and current efforts by government, industry and employers to increase savings is crucial to providing the underpin for resilience, over and above the Basic State Pension. Second, the degree of consumer engagement and awareness of the options at retirement is at least as important in determining people’s income and resilience – and clearly needs to be improved.

Despite regulatory pressure and efforts undertaken by the Association of British Insurers (ABI) to coordinate market practices for retiring DC pension customers, thousands of people default into product types or products with benefit structures that could have been better matched to their personal circumstances had interventions been made by the seller. Industry Codes and growing public awareness of annuities (the most popular retirement income solution) have delivered limited progress, but evidence continues to show many retirees are not achieving the benefits that come from shopping around. The financial detriment to the retiree from choosing a poor value product can amount to many thousands of pounds over the duration of their retirement.

Proposed solutions:

Replace the current Open Market Option (OMO) rules for pension providers and trustees with new regulations to ensure “shopping around” is the default

Any recipe to deliver retirees’ resilience is incomplete without the key ingredient of substantive and lasting OMO reform. This is crucial in order to make people aware of their options, and the financial implications of failing to engage or buy the wrong product. To deliver resilience, new processes must flag the potential benefits – by engaging and intervening with the retiree and helping them to shop around or connect with a financial intermediary who can help them. Failure to create this process as the default will leave many people with reduced income and lost benefits.

Retirees need to be better informed, better equipped to shop around, and better served by the annuity market. Reflecting our belief that everyone deserves a just retirement, these changes can be delivered by extending best practice to all retirees through specific, detailed and clear changes to Financial Conduct Authority (FCA) and The Pension Regulator (TPR) requirements for at-retirement processes (set out in detail in q2). Pension providers and trustees should also be made to promote sources of support including www.pick-a.org, the Money Advice Service and The Pensions Advisory Service.

Increase access to financial intermediaries

Though individuals' circumstances will vary, the best possible way to guarantee peoples' resilience in retirement is by ensuring customers know the best options for their retirement income, and ideally have professional support to help navigate those options. Known low levels of financial capability and inadequate financial planning can have a hugely detrimental impact on customers when better retirement solutions are missed due to low awareness of alternative options. The following posed questions illustrate some of the key questions facing retirees.

- Will the product I'm offered pay a benefit to my spouse/partner when I die?
- Will the income keep value with prices of goods over time?
- Is now the right time to buy this product? Are there any benefits or risks to postponing the decision?
- What impact will my (and my spouse/partner's) health conditions and lifestyle factors have on the product options available to me?

The opportunity just to consider these questions with professional assistance will almost certainly help people decide the best course for them – and how to act on the resulting conclusions. Professional financial intermediaries will also be able to consider assets other than pension savings including housing wealth to develop financial solutions to meet the needs of the retiree, as detailed in the below answer to q3.

2. How should the annuity market rise to the challenge laid down by Steve Webb and better meet the needs of the mass market?

- **Reform OMO and make individually underwritten annuities the default option**
- **Enable improved access to both advised and non-advised services, with new standards for non-advised sales**

The Pension Minister's challenge reflects an understandable desire to change processes which lead to customers receiving poor outcomes. Solutions will emerge as the industry continues to innovate, but the following interventions would deliver immediate value to "mass market" customers.

Proposed solutions:

Reform OMO and make individually underwritten annuities the default option

As with so many markets the most effective way to deliver good value for people is to ensure the barriers to effective competition are removed. Transparency of the annuity income provided by different competitors; facilitated access to good quality professional support; proportionate regulation; mandatory communication contents and standards are all essential ingredients.

Competition is thriving in the external annuity market where the conditions exist for an open market. The challenge is to ensure the conditions are extended to the remaining part of the annuity market. This may require regulatory intervention. The one-off nature of the retirement income purchase may require retirees to be protected from making an ill-informed purchasing decision – this may take the form of mandatory intervention by the seller. For example, how can it be treating a customer fairly, given the FCA's Treating Customers Fairly (TCF) requirement, for a customer with qualifying health or lifestyle conditions to purchase a standard annuity when in the majority of cases the customer will receive a superior outcome by purchasing an enhanced annuity? The new rules should require all people to be individually underwritten to ensure they are offered the correct product type and not placed into a product that is not appropriate for the target audience.

At the time of writing this paper we are awaiting the results of the FCA's thematic review into the annuity market. We hope the recommendations from the review will address some of these issues given the FCA's TCF and competition objectives.

Enable improved access to both advised and non-advised services non-advised services, with new standards for non-advised sales

The benefits of professional financial support are set out above. Just Retirement is a member of the Pensions Income Choice Association, the industry group responsible for developing recommendations to help people achieve improved outcomes when making a retirement income product purchase. The www.pick-a.org directory is an example of one such deliverable and has been designed to help individuals who want to shop around to connect with a professional financial intermediary who can help them.

Some areas of the non-advised market have been criticised recently for failures around service scope, cost and transparency. It is important that customers are clear on the type of service they receive, both in terms of customer outcomes and related confidence in the at-retirement market. The Pick-A site contains simple descriptions and case studies to explain the differences between advised and non-advised processes, and the cost implications. These can be viewed at <https://www.pick-a.org/Home/CommissionFees>.

One further important development is PICA's introduction of a new set of minimum standards that firms must sign-up to before the firm may be admitted into the directory. We believe creating a universal standard for non-advised services will help remove some of the criticisms of these service providers and drive higher standards of service for those customers who choose to use them.

3. How can the mortgage and equity release market work better together to improve outcomes for customers?

- **Build on progress already made in relation to consumer safeguards and market confidence**
- **Encourage competition, new market entrants and continued product and service innovation**
- **Improve access to advice**

Equity release performs a vital function in allowing individuals to access equity stored in their homes. People are increasingly using equity release to top-up their retirement income or pay off debts such as outstanding mortgage balances (having the same effect as income top up). Given the huge increase in housing equity in recent decades, increased numbers have the option to consider equity release as one option to boost lower than expected pension income. Customers benefit from a highly attractive no negative equity guarantee which means the customer or their estate will never have a debt that exceeds the value of the home.

Proposed solutions:

Build on progress already made in relation to consumer safeguards and market confidence

The equity release market is largely considered to have been transformed by the 1991 introduction of a No Negative Equity Guarantee as part of a wider Code of Conduct for provider members of the Equity Release Council ("Council", formerly SHIP). This Code gave equity release customers the guarantee that they will never owe more than the value of their home, essentially capping the cost of interest and passing longevity risk from consumers to providers.

The Council has continued its work to improve key elements of the equity release proposition right through the value chain, sharing best practice and developing standards with solicitors, advisers and chartered surveyors as well as product providers. This included the 2013 revision of the Council Adviser Checklist, requiring advisers to consider alternatives to equity release, state benefit eligibility, tax implications and proper arrangements for legal advice and will making.

Industry efforts to improve and innovate in the equity release market have contributed to consistently positive customer feedback, borne out by research conducted by Just Retirement, Aviva, Age UK and the University of Birmingham. Using positive customer feedback to further drive the equity release market should in itself encourage new entrants to drive the market and help consolidate its reputation.

Encourage competition, new market entrants and continued product and service innovation

The number of product providers has remained stable in the last five years but at the end of 2013 the market welcomed a new provider, Pure Retirement and this was followed in January 2014 with the announcement that MGM were to acquire Stonehaven. Legal & General have also announced they are actively considering an entry strategy. Consumer organisations including Age UK and Saga have also made equity release services available to its customers, with innovative propositions including no initial fee and cashback products.

In response to the emergence of new consumer needs, further product innovation has been introduced to the market. An interest-serviced product has been launched for those customers with the capacity to make repayments of all or some of their interest costs, with the facility to convert the product to a standard no-repayment lifetime mortgage in the future. For customers with a need to extract the maximum equity from their home an individually underwritten product has been developed which takes a customer's life expectancy into consideration to determine the maximum advance.

Improve access to advice

Organisations such as the Society of Later Life Advisers and the Association of Professional Financial Advisers have supported the Council's own work to improve the number of qualified advisers in the later life market. Though the Retail Distribution Review is believed to have reduced the overall availability of advice, qualifications providers such as the Chartered Insurers Institute and Institute of Financial Services report increasing demand for their equity release qualifications. The combined effect should be to increase the availability of advisers able to advise customers on both residential mortgages and equity release products.