BLACKROCK

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Mr Adam Summerfield & Mr Richard Wilson
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Submitted via email to: cp18-17@fca.org.uk

RE: RE: CP18/17 Retirement Outcomes Review: Proposed changes to our rules and guidance – BlackRock response

Dear Adam and Richard

BlackRock[1] is pleased to have the opportunity to respond to the FCA's Retirement Outcomes Review.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this Review and will continue to contribute to the thinking of the FCA on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours sincerely,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive summary

1. Focus on the complexity of needs of unadvised clients.

We remain concerned by the scale of the advice gap for individuals planning to take advantage of pensions freedoms and the lack of easily accessible default decumulation solutions. The benefit of auto-enrolment is that it recognises the uncertainty many people face when taking decisions on how to save for the future and productively leverages the resulting inertia. The recent introduction of pensions freedoms, on the contrary, requires individuals to make active choices at retirement. Access to simple, consistent help is more important than ever before at this point especially when individuals are faced with an increasing choice of products. BlackRock's Global Investor Pulse 2017 ("Investor Pulse")[2] highlights the level of 'consumer disengagement' among key sectors of the population and has found that many people – where they save at all – choose overwhelmingly to save in cash and cash-like investments such as Cash ISAs, rather than in other options like shares. The risk is that individuals will exercise their pension freedoms to save for retirement in cash rather than in products designed to provide them with an ongoing income and longevity protection. This is also the case for individuals who fall outside the scope of auto-enrolment, in particular the self-employed and those falling below the auto-enrolment eligibility cap.

We believe that there needs to be an additional focus on the provision of **the type of guidance** to enable providers to deliver unadvised consumers the support they need to make informed choices as to retirement planning. Even though the proposed investment outcomes are phrased in straightforward language firms will have to take into account that consumers will have to navigate a mixture of potentially complex decisions related to their personal situation. This emphasises the need for the pathways to be presented to be supplemented by user-friendly and interactive guidance with input from MAS/Pensions Wise and the SFGB.

We also note that there is a tendency to assume that by retirement a consumer while have a single private pension because either consolidation will have already happened or the consumer will only have had one employer. Given the levels of consumer disengagement with pensions we have noted this is unlikely to be the case. This highlights the need for active out-reach and engagement by individuals ahead of and at retirement. Otherwise even with simply-phrased investment pathways, consumers may be faced with multiple decisions to take regarding pension entitlements from products with a variety of different provisions.

2. Investment pathways should support rather than hinder consumer-focussed innovation

One of the implications of the Consultation is that firms should offer separate solutions for each investment pathway. While this reflects the characteristics of many products there are a number of products on the market such as target date/term products which are managed in a dynamic way, adjusting to customers' time horizon and risk appetite, which could meet more than one of the outcomes set out in the proposed investment pathways. Firms should be free to develop products which can meet more than one investment outcome, especially for products that are specifically designed to take consumers to and through retirement.

[2] About Investor Pulse: BlackRock's survey was conducted on 4,000 adults aged between 25 and 75 in the UK. The fieldwork was conducted during February 2017. A summary of the findings is available at: https://www.blackrock.com/uk/individual/literature/brochure/global-investor-pulse-uk.pdf.

- The survey was conducted on both affluent and mass retail consumers. The threshold for affluent consumers was a requirement to hold more than £100,000 in household assets (not including residential property assets).
- The sample focused on household decision-makers in households holding savings and investments. This included some households with savings only. Around one-in-five households in our UK survey held no savings or investments at all.
- The UK survey was conducted as part of a wider global Investor Pulse survey which was carried out using an online methodology in 20 countries. The total global sample size was over 31,000 people making it one of the largest surveys of its kind in the world.

3. The role of governance and communication in driving good retirement outcomes

Given the range of options consumers can opt for on retirement we support the extension of the role of IGCs to oversee the default pathways offered to non-advised customers, including for SIPPs held by non-advised clients. Key to successful outcomes will be the quality of member communication and the understanding of the factors members should be taking into account when making their decisions.

We are less convinced by the need to extend the role of IGCs to advised/sophisticated investors.

4. Charges cap and default investment strategies

While we support the focus on managing costs especially in terms of scheme administration, this should not be conflated with investing in the lowest cost product. It is therefore preferable for providers offering decumulation solutions to consider value for money by considering what asset mix constitutes the appropriate level of costs in order to deliver the most favourable intended investment outcome for members and then seek to implement their asset allocation decisions as cost effectively as possible. Given the proposed role for IGCs in providing additional protection for non-advised customers, such as the existing requirement to assess value for money, we support the FCA's proposal to assess market developments before making specific recommendations on the actual level of charges which can be made.

5. Disclosure and transparency

An additional level of consumer protection lies in enhanced transparency of all costs and charges incurred in the investment process. We strongly support the development of improved transparency of the cost of the investment solutions which sit within pensions products to customers. Significant action has been taken to the meet the new and comprehensive requirements under MiFID II, PRIIPs, and COBS 19.8 and we have actively supported non-regulatory initiatives such as the LGPS Code of Transparency and the IDWG.

We support the application of MiFID II-style ex-post cost and charge disclosure to pension products. At a technical level we have concerns regarding the usefulness to customers of slippage-based transaction cost disclosure and will shortly be presenting alternative suggestions to the FCA on this point. We also highlight the importance of distinguishing between charges and transaction costs in relation to ex-post disclosure.

We are generally supportive of the wider additional disclosures proposed for drawdown. We find the proposed communications to be sensible although we note there may be a tension between the number of communications received over time and the need to ensure customers do not disengage because of the amount of communications received.

Q1: Do you agree with our current high-level thinking on the key elements of our potential remedy? If not, what would you suggest?

In our response last year to the Interim Report, we noted the number of consumers who do not take advice prior to taking decision with regards to their retirement. We therefore welcome the focus the FCA has brought to developing effective outcomes for non-advised consumers and are supportive of the principle of investment pathways for consumers.

While the proposed objectives are phrased as three simple questions, in reality for many consumers the variables involved in answering these questions are likely to be complex, especially if they have to pool various pensions pots together to take a decision.

In this context it is important to ensure active engagement with customers when they access their pensions with appropriate prompts to consider how best to access their money. The success of this approach will rest heavily on the availability of this engagement and access to easy to understand guidance to help understand the options. This is particularly important for individuals who wish to stay invested. We also believe that it is important to emphasise that consumers need to consider that needs and spending patterns are likely to change in the course of retirement. Support from the SFGB with engaging and interactive guidance will be essential to the successful implementation of this approach.

We support the focus on empowering consumers to take appropriate risk-based decisions and the fact that the FCA highlights the risk of over-reliance on cash.

Q2: Does the approach we are considering taking adequately capture the objectives of non-advised consumers entering drawdown who might use the investment pathways? If not, what would you suggest?

We agree that consumers should be asked to consider available pathways, not just those offered by the provider. This will also require a set of engaging explanations of what each of the options mean so that consumers fully understand the implications of their choices. When delivered digitally this could enable consumers to click through to case studies with points they should consider to reinforce understanding.

As the FCA has noted there is likely to be significant future product innovation for products which deliver good consumer outcomes but which bridge a number of the different outcomes. We would caution against an overly prescriptive approach which would limit beneficial product innovation. The FCA report, for example, references the hybrid proposals put forward by NEST in its White Paper on the Future of Retirement and which recognises the potential for changing spending needs and providing income security in the later stages of retirement. This is an example of a product solution designed to bridge multiple investment pathways. Equally target date funds offering dynamic asset allocation adjusting to the time horizon and risk appetite of consumers are another example.

We would therefore recommend that these objectives and the guidance around them are regularly reviewed to ensure they remain relevant and do not restrict innovation.

Q3: Do you agree with our suggestion that firms should only offer 1 investment solution in respect of each of the objectives? If not, what would you suggest?

We agree in principle, that limiting the options to one choice in each pathway is a pragmatic solution so as not to overcomplicate decision-making for consumers, and also build scale in order to be cost effective

Q4: Do you agree with our suggestion that firms should not be permitted to provide a single investment solution to cover all of the objectives? If not, what would you suggest?

We believe that it is more appropriate to show whether an investment solution can in fact meet multiple objectives. In many cases asset allocation decisions will allow a dynamic and flexible approach which changes with markets and through time to offer a more tailored approach. For examples a target date fund can meet multiple objectives by varying the asset allocation over time to meet the needs / desires of the investor. Accordingly, we note that a single solution does not necessarily have to lead to a single outcome for the investor.

Q5: Do you think that firms should offer investment solutions for all the investment pathways? If not, what would you suggest? If a firm does not offer an investment solution for a particular investment pathway, should it be required to enter into an arrangement with another firm to provide it?

We expect that there will be very few providers who could offer all the options and so providers will need the ability redirect consumers to other potential providers. FCA should encourage but not mandate this.

Here we would emphasise the role of platforms, but also the role of Master Trusts such as NEST (assuming that the recommendations of the DWP Work and Pensions Committee to allow NEST to offer decumulation solutions) in delivering multiple pathways. Working via Master Trusts would be the simplest solution to facilitating the three possible outcomes for individuals and would minimise the risk of concentrating everything with a small number of providers. This would naturally require ongoing cooperation with The Pensions Regulator as part of its ongoing oversight of Master Trusts.

In terms of consumer outcomes this means consumers should be pointed towards an appropriate provider or a platform / Master Trust which could meet all of the potential objectives by hiring specialist providers which deliver the service across their platform.

Q6: Do you agree with the approach we are considering taking on prescription around the investment solution and risk profile of investment pathways? If not, what would you suggest?

We agree providers should be allowed to design appropriate investment solutions which match the outcomes laid out in the various investment pathways including the level of risk. In terms of risk disclosure some flexibility will be needed for products which adopt a dynamic approach to risk, such as target date funds, by focussing on the disclosure of targeted asset allocation over time.

Q7: Do you agree with the approach we are considering taking on permitting firms to use pre-existing investment solutions to offer an investment pathway? If not, what would you suggest?

We agree firms should be allowed to use pre-existing solutions, as long as they meet consumer requirements.

By way of example there is a difference between a target date fund or other term product which varies its asset allocation based on variations in age and risk appetite of its investors, and a ‘regular’ fund seeking an absolute return or return relative to a benchmark.

By way of comparison we note the approach adopted in the United States towards Qualified Default Investment Alternatives (QDIA) funds which facilitate investment in diversified product offering where the plan participant has not given a specific direction as to investment. This approach goes a long way to ensuring better outcomes for participants than a default into cash.

Q8: Do you agree with the approach we are considering taking on allowing firms to offer investment solutions other than investment pathways? If not, what would you suggest?

We agree that firms should be allowed to offer advised and non-advised consumers options other than those on the investment pathways. As noted above we see the potential for the development of hybrid products which will deliver good consumer outcomes without fitting neatly into the prescribed investment pathways.

Q9: Do you agree with the approach we are considering taking for the choice architecture to be implemented by firms? If not, what would you suggest?

We support the direction of travel in respect of choice architecture for non-advised consumers. We also note that the architecture should make it clear to consumers that they have the opportunity to elect to choose other investment opportunities or remain invested in their existing investment strategy. This is especially important as more products such as target date funds come to the market which are specifically designed to allow consumers to stay invested and continue to receive an income.

Q10: Do you agree that investment pathways should also be made available to advised consumers? If not, what would you suggest?

We do not believe this will be disadvantageous though in practice advised customers are more likely to be looking for a tailored solution and are likely to be active in their engagement and decision–making. We also need to bear in mind that consumers may be seeking advice over part of their retirement pots (for example they make seek advice on a SIPP while retaining a workplace pension).

Q11: Do you agree with the approach we are considering taking on how we should define advised consumers for the purposes of the application of our rules on investment pathways? If not, what would you suggest?

Yes, we agree that consumers should be considered as advised if they take advice on how to invest and access their pension via drawdown.

Q12: Do you agree with the approach we are considering taking in relation to circumstances where consumers are designating funds to drawdown on multiple occasions? If not, what would you suggest?

We agree that if non-advised consumers wish to place their money into draw down on multiple occasions they should be directed to follow the investment selection process – given that circumstances and contact may have changed. It is worth flagging to consumers why they have to reengage on each such occasion.

Q13: Do you agree with the approach we are considering taking to require firm review of investment pathways on an annual basis? If not, what would you suggest?

Yes, this seems to be a reasonable basis for review and would be in line with many other review processes firms operate on their product line up.

Q14: Do you agree with the approach we are considering taking for ongoing disclosure to consumers about investment pathways? If not, what would you suggest?

Yes, this seems to be a reasonable basis.

Q15: Do you agree that we should apply our remedies to the whole of the non-advised drawdown market, including SIPP operators serving this market? What would be the costs and how would the market respond?

We believe it is important to apply the remedies to non-advised SIPP customers. SIPP operators with non-advised or less sophisticated drawdown customers should generally be in scope of the remedies as their customer base is likely to exhibit similar characteristics to other non-advised consumers purchasing non-SIPP drawdown products. The scope of the remedies should be generally be determined by the characteristics of the customer base, not the product wrapper.

We also believe that potential requirements such as the charges cap could also provide to default investment pathways for non-advised SIPP customers.

Q16: Do you think we should consider carving out from our remedies those SIPP operators focused on advised consumers and sophisticated investors? If so, how do you think we should do this? Should we consider an alternative proportionate solution?

No comment.

Q17: Do you think that we should limit the scope of application of our rules on the investment pathways? What would be the impact on the SIPP market if we don't limit the scope?

Q18: What would be the costs and challenges of the different options set out? Are some more likely than others to distort the market? Are there ways to mitigate the impact of this?
Q19: Would SIPP operators be able to demonstrate that their consumers are advised and/or sophisticated/high net worth investors?

We believe that it is worth exploring an appropriate certification as a sophisticated investor but making sure this is a substantive rather than a box-ticking exercise to ensure necessary consumer protections.

Q20: How might an appropriateness test work in practice?

Q21: Should we not apply the remedy to non-advised consumers who have self-selected an investment strategy even though these consumers might benefit?

No comment.

Q22: Should we instead not require firms with small numbers of non-advised consumers to offer investment solutions for any of the investment pathways, but require them to refer consumers directly to another provider for investment pathways?

This seems to be a pragmatic approach, but there would need a process to ensure consumers were being referred to appropriate provider.

Q23: Do you agree that the IGC regime should be extended to investment pathways? If not, what alternative regime would you propose?

Yes, we agree with the aims of the proposal as the simplest way of delivering consumer outcomes, especially for products which aim to serve consumers in both accumulation and decumulation. We do, however, recommend focussing on the independence of IGCs from the product provider so as to minimise the risk of sub-optimal investment propositions.

Q24: Do you consider that a requirement for independent oversight should apply to other decumulation products (i.e. not only to investment pathways)? If so, why?

While we support the need for high quality governance in DC schemes. There is, however a need to adopt a proportionate approach to regulation. Where firms are only selling to advised customers (and/or sophisticated customer if there such a carve-out) we are not convinced of the incremental benefit of extending the full IGC process. We would, nevertheless, recommend clear and prominent disclosure to consumers who self-select away from the default so that they know their choice does not have independent oversight

Q25: Do you think we should carve out from the requirement those providers which only provide decumulation products for advised consumers, or those in less need of protection? How would this work?

Yes, we believe it is appropriate to have a differentiated approach for advised clients.

Q26: Do you have any other issues or concerns about the proposals?

Q27: Do you agree with our current thinking that a single, default investment pathway is unlikely to be suitable in drawdown? If not, please provide reasons why you disagree.

As noted above there are products with a single default which are designed to stay invested for retirement income as is the case for the default option in many target date funds and where the pathway is designed to be dynamic and take into account time horizon and market conditions.

As the FCA notes, however, products which do not incorporate this dynamic approach are unlikely to be suitable as a single default pathway and so different strategies will be needed for different objectives.

Q28: Do you agree with the approach we are considering taking to require making investment wholly or predominantly in cash an active choice? If not, what would you suggest?

Yes. We agree that it is appropriate that people have to make an active choice to invest into cash given the tax and other implications relating to lack of long term growth. This is especially relevant as DC pensions becomes more and more the primary source of retirement income.

Q29: Do you agree with the approach we are considering taking in relation to mandating warnings to those making an active choice to invest in cash? If not, what would you suggest?

Yes, we believe the warning is entirely appropriate, as people do not necessarily take account of inflation risk. It is important that risks of holding cash are as well understood as risks of investing.

Q30: If relevant to you, what have you done – or what do you plan to do – about your current drawdown consumers who have already been ‘defaulted’ into cash until now, but who are unlikely to be best served by this investment strategy for the remainder of their retirement?

N/A

Q31: Do you think we should require firms to issue warnings to consumers who are invested in cash on an ongoing basis? If not, what would you suggest?

Yes, we agree for the reasons set out in our response to Question 29.

Q32: Do you agree with the approach we are considering taking in relation to a minimum limit and the cooling-off period? What minimal limit would you suggest? If you do not agree with the approach we are considering taking, what would you suggest?

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the Consultation Paper and will continue to work with the FCA on any specific issues which may assist in finalising the proposed regulatory framework.