

FCA bans contingent charging for pensions transfer advice



What you **need to know**

- The Financial Conduct Authority ('FCA') has announced it is to ban financial advisors ('IFAs') from charging on a contingent basis for pensions transfer advice (i.e. where an advisor is only paid if a member transfers).
- This ban takes effect from 1 October 2020. It follows the consultation launched by the FCA on 30 July 2019, aimed at addressing their concerns regarding the quality of pensions transfer advice.
- Whilst we consider this to be a positive step, it will have a huge impact on the ability of pension scheme members to take financial advice when considering their retirement or transfer options:
 - Members will be put off taking advice as they will need to pay for it up-front;
 - Members may not be able to find an IFA as the market will shrink.
- Further changes have been confirmed by the FCA, including the requirement for IFAs to be much more transparent about the charges that members will pay following a transfer.



Actions you must take

These changes will come into effect at a time of great financial uncertainty for many pension scheme members. It is important that all trustees and sponsors consider how to support their members.

- **Help them to obtain high quality advice.** Trustees and sponsors are best placed to identify high quality advisors, obtain preferential terms or even fund the advice directly.
- **Review communications.** Ensure members understand their options and how to obtain high quality advice.
- **Implement scam protection.** Scammers may look to take advantage of this market turbulence.

Sponsors and trustees should also consider how any change in transfer activity affects the scheme's journey plan.

The major changes proposed in the FCA consultation

Consultation proposal	Implemented?	Resulting position
Contingent charging ban	✓	Advice costs are payable regardless of member decision
Cost transparency	✓	Greater transparency of costs incurred in transferring
Default receiving vehicle comparison	✓	IFAs must consider any receiving vehicles available to the member
One page suitability report	✓	Simplified summary of advice to aid member understanding
Abridged advice	✓	Cheaper option to determine whether full advice is appropriate
Partial transfers	?	No immediate change, but the FCA has passed on the consultation responses to the DWP and HMRC for further consideration
Scheme pays option	?	No immediate change, but the FCA has passed on the consultation responses to the DWP and HMRC for further consideration



The finer detail: Changes to be introduced

Contingent charging ban

IFAs will no longer be able to only charge a member if a transfer goes ahead. Members who can demonstrate that they are seriously ill, or in financial difficulty, are exempt from the ban.

We consider this to be a positive step as it clearly removes some of the potential conflicts of interest in the previous model. However, without action it could result in many members being unable or unwilling to take valuable advice.

Cost transparency

IFAs must be much more transparent about the charges that would be paid under various circumstances, including distinction between full and abridged advice.

We are supportive of this change, which addresses the FCAs concerns that 60% of files from their thematic review failed on the grounds of disclosure/communication with clients.

Default receiving vehicle comparison

The FCA's investigations found that individuals rarely transfer into an existing DC arrangement despite most people having one available. Although consideration of these vehicles has been a requirement for some time, the FCA has strengthened the requirement for IFAs to demonstrate that their recommended vehicle is more suitable.

Most 'default' arrangements are low-cost and safe, which has to be a good thing for member outcomes on transferring. As a result, we are supportive of this change.

One page suitability report

IFAs will have to provide a one page summary of their advice, with example templates published by the FCA. This will help members avoid missing key points in lengthy advice reports.

Abridged advice

This will enable IFAs to offer a lower cost step before full advice. This abridged advice will help individuals to decide whether to proceed to full advice but cannot result in the member being advised to transfer on its own.

Partial transfers

The FCA noted that creating a mandatory requirement for IFAs to consider partial transfers was outside of its remit. It noted that although many respondents were not supportive of a mandatory requirement, they did acknowledge that partial transfer values can increase choice for individuals.

We have always been supportive of partial transfers as it helps members to avoid the stark 'all or nothing' transfer decision.

Scheme Pays option

The FCA noted that enabling an option for DB scheme members to give up a small amount of their benefits to pay for financial advice was outside of its remit. The FCA noted that this could be complicated for individuals to understand and may have low take-up. It has referred comments to the DWP and HMRC for further consideration.

We are disappointed that this option has not be pursued because we believe that it would be valuable for members of DB schemes who will not be able pay the significant cost of financial advice from their DB pension, something members of DC schemes can already do.

Record keeping

IFAs must obtain evidence that the client has understood the risks to them of proceeding with the transfer. A record of this evidence must also be kept by the firm.

CPD requirements

Pension Transfer Specialists will be required to undertake a minimum level of training relating specifically to pension transfer advice.

TVC clarity

Greater clarity about the Transfer Value Comparator calculation to ensure that they are consistent between IFA firms.

For further information, please get in touch with **Simon Reddish** or **Rachel Trickett** or speak to your usual XPS Pensions contact.



0113 467 3387



simon.reddish@xpsgroup.com



0113 284 8141



rachel.trickett@xpsgroup.com



@xpsgroup



xpspensionsgroup