Pension switching checklist

If you're considering pension switching for your clients, the Financial Conduct Authority (FCA) makes it very clear that any advice you provide must be based on your client's individual circumstances. This leaflet looks at the FCA's concerns and the key points to consider when recommending a pension switch to your clients.

FCA concerns

In 2008, the FCA, formerly the Financial Services Authority (FSA), published the findings from their 'Quality of advice on pension switching' review which aimed to improve the quality of advice given to customers when switching into a personal pension or self-invested personal pension (SIPP).

The review highlighted that over a quarter of firms had provided unsuitable advice on a third or more occasions:

- 79% of the files revealed that the client incurred unnecessary costs from switching to a new plan.
- 40% of the files revealed that the investment option recommended didn't match the client's attitude to risk.
- 26% of the files revealed that the adviser didn't explain the need for, or put in place necessary ongoing reviews.
- 14% of the files revealed that clients lost out on their existing pension plan benefits when they switched without good reason.

The FCA repeated this review in 2013/14 and identified many of the same advice issues.

Suitability of the switch

To address their concerns and ensure clients receive advice in line with their requirements, the FSA and subsequently the FCA, produced a suitability template which highlights what they see as the key drivers for pension switching and the four key outcomes that indicate when clients received unsuitable advice.

The table below shows each of the unsuitable outcomes and some of the example questions from the FCA's suitability template.

Unsuitable outcome 1 - The clients have been switched into a pension plan that's more expensive than their existing pension plan or stakeholder pension plan without good reason	• Are there features/options on the new pension plan which meet your client's needs? • Are there features/options or funds on the new pension plan that could have been achieved in a more cost-effective way? • Are you recommending your clients to switch to a more expensive pension plan without good reason?
Unsuitable outcome 2 - The clients have lost benefits in switching their pension plan without good reason	• Are there any valuable benefits in the current pension plan? For example, enhanced or protected tax-free cash.
Unsuitable outcome 3 - The clients have switched into a pension plan that doesn't match their attitude to risk or their personal circumstances	• Are you recommending a suitable investment choice that meets the client's attitude to risk?
Unsuitable outcome 4 - The clients have switched into a pension fund where there's a need for ongoing investment reviews but this isn't explained, offered or put in place	• Have you included within the suitability report, the importance of regular reviews?

Pension switching checklist

This checklist covers some of the key things you'll need to consider when recommending a pension switch to your clients. This is just a starting point – you should make sure your process meets your own compliance requirements.

1. Understand your client's aims and objectives and their current situation

Discuss your client's personal and financial situation. For example:

- What are your client's financial goals? If they have several goals, which ones are more important?
- What's their current tax position?
- Do they have other sources of income they can access in an emergency?
- Do they have any dependants?

2. Review your client's existing pension plan

- What are the charges? You should consider things like the annual management charge, reduction in yield, any loyalty bonuses etc.
  - Could your client access the features / options / funds in their existing plan more cost-effectively by switching to a different product / provider?
  - If the recommendation is to switch to a more expensive product:
    - What does the new plan offer that the existing plan doesn't?
    - What value does the client get by paying more? Does this make up for the additional charge?
- Where's the existing plan invested?
  - Is this still suitable for your client's attitude to risk and capacity for loss?
  - Do they have access to a suitable range of investments?
  - How have the investments for the existing plan performed? Are the investments for the new plan likely to outperform this? You should compare performance for 1, 3 and 5 years.
- Does the existing plan have ongoing contributions? If so, you should consider and discount the following options before recommending a pension switch:
  - Would an internal fund switch be appropriate?
  - If the client reduces their existing contributions to the minimum level and redirects the remaining contribution to a new plan, will this incur any penalties?
  - Would there be a penalty for stopping contributions into the existing plan and making contributions into a new plan?
  - If the client switches the entire plan into a new plan, will any exit or transfer penalties apply?
- Is your client invested in with profits? If you're recommending that your client moves out of with profits, you should also consider bonus rates, financial strength of the provider, asset split and future expectations of performance.
- Does the existing plan have a guaranteed annuity rate? If so, on what basis and how does this compare to current rates?
- Does the client have any other valuable benefits which could be lost if they switch to another product / provider?

3. Consider any workplace pension plans your client may have or have access to

4. Confirm the investment selection

- This should break down the fund(s) and the percentage within the portfolio and confirm the reasons for recommending that particular fund(s) or portfolio.

5. Identify the target market for the recommended product

- Under the FCA's Product Intervention and Product Governance Sourcebook (PROD) rules, you also need to be clear on the recommended product's target market. This is key to assessing the suitability for your clients and making sure that it meets your client's needs. Here's some things to consider:
  - Are you aware of the product's target market?
  - Does your client meet the target market for the recommended product and investment solution?

Our separate checklist **Designing a compliant and robust PROD process** provides more information about the key things you'll need to consider when designing your PROD process. You'll also find more information by searching for 'PROD' on our website at **adviser.royallondon.com**

6. Consider the death benefits available

- Will death benefits be paid via discretion or direction? If the existing plan only offers the discretion option, your client may want to switch to another product / provider who offers both.

7. Discuss how and when your client would like to access their pension savings in the future

- Confirm the age your client can start accessing their pension savings from their existing plan.
- If your client would like to flexibly access their savings through income drawdown in the future, does the existing plan offer an income drawdown option?
- If your client would like to leave money behind for loved ones when they die, does the existing plan offer a beneficiary drawdown option?

If you've answered 'No' to any of these questions and your client's aged 50+, they may want to switch to a pension plan that gives them more flexibility over how and when they access their pension savings.

8. Consider whether the client would benefit from consolidating multiple pensions into one plan

- You should look at each individual plan on its own merit before recommending that your client combines multiple plans.

9. Other things to consider:

- Have you discussed the importance of ongoing reviews?
- Has your client completed a nomination of beneficiary form?
- Have you discussed the Lifetime Allowance and Annual Allowance?
- Have you discussed Wills and Lasting Power of Attorney?

10. Reasons for your recommendation

- You must be able to demonstrate the suitability of the switch and compare features / options / funds of the new and existing plan. If you're not recommending a stakeholder pension, you must be able to demonstrate why the recommended plan is at least suitable for your client's circumstances.
- You should make the client aware of any risks associated with your recommendation and record why they're relevant to your client's circumstances.
- You should confirm the reasons for selecting the provider you're recommending. If this is a platform, you should also confirm the costs, why the platform is suitable and why the increased costs are relevant to your client's circumstances.
- If you're recommending that your client switches into a SIPP, you should also confirm:
  - Investments / commercial property aspects
  - Any proposed scheme borrowing
  - Any other applicable investment issues

11. Confirm your advice and service charges

For more information about pension switching, speak to your usual Royal London contact or visit our website at **adviser.royallondon.com**

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