



Association of British Insurers

Consumers in the Retirement Income Market

Code of Conduct on Retirement Choices

March 2012



Executive Summary

ABI figures show that a third of people do not shop around for an annuity when they reach retirement and, as a result, may be missing out on a higher income, potentially losing thousands of pounds over the course of their retirement.

The ABI's Code of Conduct on Retirement Choices will ensure that customers are equipped with the information they need to understand their options, shop around and make an informed decision about their income in retirement. The Code of Conduct will require our members to:

- Provide clear and consistent communications to ensure customers are able to make informed decisions about retirement income products, and are able to shop around for the most appropriate product.
- Highlight different types of retirement income, particularly enhanced annuities and the much higher income they can potentially offer, and inform customers whether they offer these products.
- Clearly signpost customers to sources of advice and support, both from regulated advisers and government-backed advice organisations such as the Money Advice Service and the Pensions Advisory Service.
- Establish transparency in the annuity market so that it is more easily understandable and accessible to customers, with a clear picture of how individual providers' product offerings fit in with the wider market.

We consulted widely on the Code and this report includes summarised responses from stakeholders to the consultation; and outlines our position in light of feedback, with the final Code attached.

The key areas of debate on the Code, and our view on these points, are as follows:

- The timetable for implementation will remain at one year.
- The Code is amended to reflect that the customer journey may start earlier, making clear that the Code applies when queries are made about early retirement; and that customers must be contacted between two and five years ahead of their selected retirement date.
- The requirements on the sales process are strengthened to clarify that at each appropriate stage in the sales process, the customer must be asked a number of questions which will prompt consideration of their options; and they must explicitly and clearly be made aware of the risks arising from their answers.
- Certain key messages in the template letter are prescribed and we have also taken on board feedback on the content of the letter.
- We will take forward discussion with the Money Advice Service about their leaflet 'Your Pension – It's Time to Choose' and the options for incorporating the Shopping Around guide produced in this Code.
- The requirements for members have been clarified alongside the compliance letter. We will require members to submit samples of pre-retirement communication materials and will commission an independent review to look at these and assess the effectiveness of the Code, at least in the first year.
- Consumer research published alongside this report indicates that unrequested illustrations have a negligible effect on people's intention to shop around, and in some cases prompt people to shop around. We therefore do not think it is appropriate to ban illustrations. However, the Code now requires that illustrations should state that customers may obtain a better rate by shopping around; and that a personalised illustration is provided before a sale of an annuity is completed.
- We remain of the view that the Code should be relevant to almost all customers and to ensure this is the case, we have made clearer the need for customer communications to be in plain English.

- We have also added information about amalgamating small pots and tracing customers; and providers will be able to tailor their communications to the small proportion of people for whom an annuity may not be appropriate.
- We believe in the value of advice and guidance and we have increased the prominence of signposting in the Code: to the Pensions Advisory Service and Money Advice Service; and to a directory of specialist financial advisers, when such a directory is available and suitable, in addition to existing ways to find an adviser.
- We recognise the need for greater transparency in the market and will establish transparency in the annuity market so that it is more easily understandable and accessible to customers. In addition, we will also collect more detailed data on annuity sales and will look further at what more we can publish. This significant step presents numerous challenges and will require additional consideration before it is implemented.

Several public policy and regulatory changes ahead, as well as the continued evolution of the market that accompanies these changes, will have an impact on this Code and the issues it seeks to address. We will continue to work with the Open Market Option Review Working Group led by DWP to ensure that the Code is relevant to the wider context; and we will continue to engage with the debate on these issues wherever the industry has a part to play.

1. Background and context

1.1 The market for retirement income is going through a period of extensive change, adapting to factors that have developed over many years, some of which are still to have an impact. The Government's pension reforms are changing the landscape, with millions more people automatically enrolled into workplace pensions, largely on a defined contribution basis. This means that demand for retirement income products will increase dramatically. At the same time, demographic, economic and regulatory changes are having a substantial effect on the annuity rates available. Finally, providers' product offerings have evolved over recent years. For example, enhanced annuities taking into account medical conditions and lifestyle factors are much more developed than they were five years ago.

1.2 For the market to work most effectively through these changes, it is crucial that customers are able to understand their options, identify the most appropriate product for their circumstances and shop around for the best deal to make the most of their retirement savings. The ABI and our members recognise the responsibility industry has to support its customers to make these choices at retirement. This is signalled in this Code and in previous efforts by the industry in recent years to improve the experience of buying a retirement income product. For example:

- ABI members have developed and signed up to Origo's Options pension transfer service, which has drastically reduced the time it takes for a pension pot to be transferred from one provider to another, from over 30 days to an average time using Options of under 10 calendar days.
- Our Good Practice Guide "Improving customers' retirement experiences" has been updated several times, ensuring ABI members have had an up to date set of principles setting out the standards we expect from our members.

1.3 However, evidence about the extent to which people shop around for income at retirement is mixed.

In previous research, almost all people at retirement reported being aware of their right to shop around for a retirement income product, with 67% doing so and 72% seeking information and advice¹. The number of people buying from a provider other than the one they saved with is rising, from 35% in 2009 to 44% in 2011².

1.4 But research published alongside this report³ shows the very low level of knowledge and engagement of people coming up to retirement, with “a general assumption that money will somehow simply be ‘paid back to me by my provider’”. While older people as a broad category are generally regarded as more financially capable, people coming up to retirement have a distinct and sometimes complicated set of needs, and often feel daunted by the choices they face. It is clear that a significant number of people – around a third⁴ – do not shop around, which may mean they do not get the best value from turning their savings into retirement income, potentially losing out on thousands of pounds over the course of their retirement.

1.5 If the industry wants to truly discharge its responsibility to its customers, it needs to do more. We published our consultation on Consumers in the Retirement Income Market in December 2011, with a view to introducing a compulsory Code of Conduct on Retirement Choices, as announced in September 2011. The purpose is to ensure that all ABI members encourage customers to shop around for a retirement income, leading to more customers buying the most appropriate and competitive retirement income product for their circumstances.

1.6 The Code will ensure common standards among our membership in their communications and sales process for customers near to retirement. It will mean that the benefits of shopping around and ways to seek advice will be highlighted to all customers, in order to equip them with the information they need to find the best type of product and rate for them.

¹ Annuity Purchasing Behaviour, ABI Research Paper no.23, 2010

² ABI quarterly long-term business statistics, Q4 2011. These figures include some single tied arrangements, which account for an estimated 2% of premium income from external annuities and should make a minimal difference to these figures. As discussed in section 12, we are looking at how to clearly separate tied sales in our statistics.

³ Shopping around for retirement income: unrequested annuity illustrations, ABI Research Paper no.31, 2012

⁴ Pension Annuities and the Open Market Option, ABI Research Paper no.8, 2008

2. Overall comments

2.1 We chose to consult beyond our membership to garner the wide range of views and interests in this important issue, which has such a significant impact on the lives of people in retirement. We received 36 responses from our members, consumer organisations, professional and other representative bodies, financial advisers and advisory services.

2.2 All respondents welcomed the consultation and the intention of the Code. There was broad agreement on most of the Code but starkly contrasting views on a number of details. A number of respondents either suggested that the Code should go further or that other measures would be needed to solve the problem – including greater consumer education, further regulation or alignment of regulatory regimes and Government intervention.

2.3 We entirely agree that this measure alone will not eliminate customer inertia; and that access to advice and guidance remains key to ensuring good outcomes for customers. Therefore we will continue to work with the range of stakeholders with an interest in retirement income, predominantly through the DWP's Open Market Option (OMO) working group.

2.4 A number of respondents referred to principles used in behavioural economics, especially defaults, either as limitations of the proposed approach or harnessing these to benefit consumers. A "default OMO" is often presented as a solution; this concept could perhaps be described as "default shopping around", or a forced decision.

2.5 We believe in the value of advice but we want to ensure that when people choose not to take advice or it is not available, the process will guide them in making better choices. This Code comes much closer to that position, without requiring advice, by strongly encouraging customers to shop around and take independent advice and prescribing questions to lead to the best rate for them.

2.6 Responses to individual questions in the consultation are summarised below.

3. Is the timetable for implementation appropriate (question 1)?

3.1 Almost all respondents agreed the timetable for implementation was appropriate, although some consumer groups and providers felt it was the maximum appropriate; and some providers felt it was challenging to meet this deadline while simultaneously making changes for Solvency II and the Retail Distribution Review. We will keep the timetable of one year from the publication of the Code (1 March 2013), encouraging members to implement it as soon as they are able to within a year from publication, working with members to overcome any concerns about the timetable.

3.2 To clarify, we would expect all packs and communications after this date to be in line with the Code. This would mean, for example, if a provider sends a “wake-up pack” before our deadline that is not in line with the Code, we would expect the “follow-up pack” to be in line with the Code if it was sent out after the implementation date.

4. Is the customer journey set out in the Code appropriate (question 2)?

4.1 The customer journey was generally received very positively. However, there were a number of key points raised:

- There was a difference of opinion about when the customer journey should start. Some felt that five years ahead of the selected retirement date was too late; others felt it was too early. We are aware that customers are usually not ready to think about retirement until around a year or less before, but that consideration should ideally start much sooner – especially given that benefits can be taken from age 55.

- It was noted that customers do not have the same journey – people retire in different ways and may retire gradually; an annuity will not be their only income and should reflect a wider range of at-retirement products.
- It was also stated that providers should be satisfied that each step is complete before moving on to the next.

4.2 We appreciate these points but believe the journey as described should apply very broadly. We agree that the sooner customers engage in retirement decisions, the better, but we believe this is beyond the reach of the Code. However, we have amended the Code to make clear that it applies when queries are made about early retirement; and that customers must be contacted between two and five years ahead of their selected retirement date.

5. Are the requirements for the sales process appropriate (question 3)?

5.1 Respondents were broadly supportive of the requirements for the sales process and highlighted its importance. Some respondents called for data collected through the sales process as defined by the questions listed in the Code to be retained; that the Code should state that the data should be acted upon; and an additional question to ask whether the customer is aware of the OMO and has shopped around.

5.2 The questions listed in the Code to be asked in the sales process are:

- Whether they are taking any small pots as cash and/or taking tax free cash
- Whether they are married/partnered or have a dependent who might outlive them
- Whether they are concerned about their income losing value because of inflation

- Whether they have any lifestyle or medical conditions that may mean they are eligible for an enhanced annuity
- Whether they have any other pots and would benefit from combining them

5.3 The questions are designed to prompt customers to consider their needs, and to make clear that there are several options available and what the implications of those options are. If the questions are asked on the phone, calls would be recorded for regulatory purposes. But the answers may not be straightforward and we want to avoid these questions leading to a yes/no tick-box approach; therefore we will not require providers to share this information with us or to use this information to validate each customer's choices in subsequent communications with them.

5.4 The Code is already clear that the customer must be "made aware of any risk" arising from answers to their questions, but we have strengthened the text to clarify that this must happen at each appropriate stage in the sales process, and that the customer must explicitly and clearly be made aware of the risks.

5.5 We have also added an additional requirement, but not a question, to highlight the benefits of shopping around.

5.6 Extra detail has been added on what is meant by payments being made 'promptly' and the measurement point of a product being set up within 30 days.

6. Are there any changes you would recommend to the template cover letter (question 4)?

6.1 There was a clear response that the template needs to be immediately engaging in content and format, and shorter with simple language. However, various suggestions were made for items to include or not include. We have made changes to reflect these comments, changing phrases such as commutation to be more customer-friendly.

The letter "*was widely thought clear, helpful and effective in communicating a lot of new information*" by participants in the research conducted alongside the Code.

6.2 There was also a difference of opinion about the degree of prescription. We do not wish to dictate the exact contents of the letter and have instead prescribed key points that must be made.

This is in line with the widely accepted view that too much prescribed text can fail to engage customers⁵. This will also allow providers to highlight guarantees, access to advice or a shopping around service that is available through the scheme.

7. Are there any changes you would recommend to the template shopping around guide (question 5)?

7.1 A number of respondents agreed with the suggestion to incorporate this text into the Money Advice Service guide, 'Your pension – it's time to choose', including MAS themselves. Incorporating the shopping around guide into the MAS guide would mean that the content will be consistent across providers and, as such, answers the calls for the text to be mandatory; and concerns that it would duplicate other material and confuse consumers.

7.2 On the other hand, our research published alongside this report, found that a short guide covering ways to shop around was popular with customers and had a positive impact on shopping around: "*the language and tone were widely thought approachable, customer-friendly and easy to understand.*"

7.3 We will discuss this further with the MAS and other stakeholders. The final outcome – whether the shopping around guide is kept separate or incorporated into the MAS guide – may depend on further customer research.

⁵ See, for example, Warning: Too Much Information Can Harm, Better Regulation Executive, 2007

7.4 As with the template letter, some respondents felt that the shopping around guide was too long but others made suggestions for text to include:

- why to shop around
- how to shop around – such as gathering information and comparing quotes
- choosing the right type of annuity
- a different approach for those with small pots
- pots with other providers, and amalgamating pots
- emphasis on providing for dependants
- more on drawdown
- that moving pensions has been simplified
- examples of real-life cases
- graphical representations of different types of annuity
- references to financial advisers, particularly specialists

7.5 We will discuss these points and specific suggestions on content with the Money Advice Service – many of these are already covered in their existing guide.

8. Are there any changes you would recommend to the template compliance letter (question 6)?

8.1 Respondents were broadly in agreement with the nature and content of the compliance letter. There was some concern that we need to be specific about what is being measured.

8.2 To clarify two points raised:

- Where a Member Company is a multi-national organisation, it will be permissible for the Compliance Letter to be signed by the Chief Executive of the UK Business.
- We expect all providers to complete and sign the CEO letters, but they need only demonstrate compliant processes and communications where it is applicable to them. For example, if a provider does not sell annuities they need not monitor the number of days to complete a sale.

8.3 There were calls for the compliance requirements to go further; these are listed below, along with our response on each point.

- For members to submit copies of pre-retirement communication materials, or samples. In the first year of implementation, members will be required to send a sample of their communications to the ABI, who will commission an independent review to assess effectiveness of the Code. ABI will not monitor the content of the pack.
- For members to publish their annual confirmation letters in their Annual Reports – this is a matter for members but it will not form part of the Code.
- For members to conduct research with customers to validate that they understand the key messages, and the action they should undertake. We would welcome members researching these matters but we will not prescribe how members conduct their customer research.
- If any shortcomings have been identified that these should be listed and the remedial action explained. We would be keen to discuss the impact of the Code on our members as they implement it, but will not require them to detail this in their letters.

9. Do you have any evidence about the impact that illustrations have on customer engagement or behaviour (question 7)?

9.1 Respondents referred to the following research:

- DWP research which found that some participants, particularly those who were more financially aware, found illustrations allowed them to better predict the income they would need in retirement. Other participants found illustrations too complicated to understand or not appropriate to their own circumstances⁶.
- Pica research on the impact of unsolicited illustrations, suggesting that these anchor the customer to the provider⁷.
- Customer research which found that an estimate of retirement income was considered the most beneficial feature of the annuity process.
- A provider found only a 1% difference in those who elect to take an Open Market Option between a group of customers who receive an illustration and a group of customers who do not.
- Another provider found that very few customers, despite informing them of their options, requested a re-quote under different terms than those quoted in the initial retirement pack; most customers accepted the original quote.

9.2 In the consultation paper we noted that there was a difference of opinion on whether the Code should allow illustrations to be included, which was reinforced by the responses to the consultation. A number of respondents stated that unrequested illustrations should not be included in packs, citing behavioural factors of loss aversion, anchoring and familiarity bias. Many suggested using generic rate tables instead. While we do intend to address the behavioural factors mentioned, we do not accept the arguments on removing illustrations for the reasons explained below.

⁶ Information needs at retirement: Qualitative research on annuitisation decisions, DWP, 2008

⁷ The macroeconomic impact of shopping around for retirement income, Oxford Economics for the Pension Income Choice Association, 2009

9.3 ABI research conducted alongside this consultation found that recipients of illustrations were no less likely to shop around; and some said it would prompt them to shop around. This was partly because the rate was lower than customers expected, which could be described as a response to loss aversion. Similarly, a figure in the illustration may serve as a benchmark for comparison rather than anchoring the recipient to that provider.

9.4 It is just as likely, we believe, that any generic table or other endogenous factors like advertisements or best buy tables would have such an anchoring effect as that described above.

To combat any such effect we have added wording in the final Code to encourage recipients of illustrations to shop around, which aims to help customers overcome the tendency to settle for the first quote that seems reasonable or exceeds a mental benchmark or anchor. We agree, though, that generic rates may be an important tool for customers in understanding the need to shop around and we are interested in considering further how generic rates could be used, for example through the Money Advice Service.

9.5 Furthermore, we will require firms to provide customers with a personalised illustration at some point in the process before a sale is completed. This reflects current industry practice.

9.6 Familiarity bias, or brand loyalty, will remain a strong factor regardless of the inclusion of an illustration – the evidence for this is striking. While we acknowledge that this will sometimes lead customers to a lower rate, the customer may have many reasons for their decision and there is nothing inappropriate about brand loyalty in these cases. Nonetheless, we fully agree with the need to signpost to advice to enable customers to make as informed a decision as possible.

10. Are the requirements for each stage in the Code appropriate (question 8)?

10.1 Effectiveness of communications

10.1.1 Respondents generally agreed that requirements for each stage in the Code were appropriate. Some providers did not want to compromise their own communications where these were demonstrated to serve customers' needs well. We do not wish to prevent members from supporting customers well; but the purpose of the Code is to set common standards, which is why we have prescribed key points and pieces of information but not long passages of text.

10.1.2 It was also stressed that communications must be clear about the risks of an annuity, what happens if you die and particularly its irrevocable nature. Again, the need to refer to independent and specialist advice was clear, including services in the workplace. We have taken these points on board and amended the Code accordingly.

10.2 Effectiveness of the Code

10.2.1 A variety of respondents stressed that the whole package needs to work together; and this should be externally monitored. ABI will take on this role in order to understand how to improve customer outcomes, and this paper discusses success measures. We also value the input of the OMO Review Working Group, led by DWP, which is itself looking at success measures.

10.3 Information overload

10.3.1 Many respondents pointed out, and we are acutely aware of, the danger of information overload: that the entire pack is too much to take in or too much to engage with at all. However, the research published alongside this Code found that the pack *"was widely liked... most felt the items combined well to give a good introduction to the issue, were written in plain English and were not too long. Many respondents also felt the pack would allow them to start thinking about the decisions they will need to make, or even to act on these."*

The independent review mentioned on pg.8 will help ensure the Code is effective, including the prescribed information; and we would appreciate feedback from our members and others once the Code is implemented.

10.4 Relevance to particular groups

10.4.1 It was questioned whether the Code can deal with the needs of particular groups: those with small pots, those who do not engage at all or those for whom an annuity might not be most appropriate. We believe that it is appropriate to use the Code across these groups – for example, we do not believe that the “shops are shut” for people with small pots, as many providers will offer annuities for funds lower than £5,000 and advice is available more widely than has been asserted. Nonetheless, to address the concern, we have added information about amalgamating small pots and will monitor the impact on those with small pots; added a requirement to make efforts to trace people for whom there is not a current address; and as mentioned previously, subject to prescribed key messages, providers will be able to tailor their communications to the small proportion of people for whom an annuity may not be appropriate. This includes references to other ways to take a retirement income.

11. Are there any other useful customer resources we should be signposting customers to and which are not mentioned in the Code (question 9)?

11.1 The following resources were mentioned:

- *Directgov*, which includes pension tracing, tax on pensions and pension forecasts
- Other advice services including *Which?*
- Moneysavingexpert.com
- Lovemoney.com

- The Pensions Advisory Service and its annuity planner should be more prominent
- Non-internet sources should be available wherever possible.

11.2 Once more, a list of specialist advisers was requested. The DWP OMO working group has discussed creating such a directory. When a suitable directory is available we will include a link to it.

11.3 It was also suggested to mention, but not necessarily list, comparison tables other than the Money Advice Service.

11.4 We believe that any sources should be clearly independent and have amended the Code accordingly.

12. Do you have any other comments on the Code of Conduct (question 10)?

12.1 Application forms

12.1.1 Two respondents questioned removing application forms from provider communications and for understandable reasons: a provider sends forms to those with a guaranteed rate, alongside an OMO form and a commutation form; and an adviser was concerned that it would lead to customers calling their provider and being engaged in a sales process. We understand these concerns and have clarified that this only refers to annuity application forms. We would welcome evidence on the specific impact of application forms being removed. But given the significance of removing application forms in prompting customers to consider their options, we do not propose to change the requirement to remove annuity application forms.

12.2 Scope

12.2.1 Questions were asked about the scope of the Code.

- The Code applies wherever the customer can purchase a lifetime annuity, including a customer receiving drawdown approaching a future assumed annuity purchase date. In cases where packs are not currently distributed, this Code does not create a need to distribute them, but we would expect providers to apply the principles of the Code.
- If the customer elects to defer retirement, the Code should be applied again as the customer reaches their new Selected Retirement Date.
- In other situations where someone purchases an annuity, such as where a dependant receives a benefit on the death of the policyholder, it would depend on the scheme rules but we would expect providers to apply the principles of the Code.

12.3 Definitions of products

12.3.1 Two points were raised about the absence of common definitions:

- The number of different types of retirement products would benefit from generic wording to be used within all communications and updated when necessary.
- There is no enforceable definition of "enhanced", so a provider could offer only slightly improved rates for those with reduced life expectancy and use the term "enhanced" annuity.

12.3.2 These questions are not answered by the Code but we understand the need to address the issue. As the market evolves, further developments are likely, so we do not believe it would be helpful for the Code to set definitions at this stage.

12.4 Transparency

12.4.1 Some respondents called for mandatory publication of more data, including retention rates and spread of market rates.

We recognise the need for greater transparency in the market and we and our members commit to establishing much greater transparency in the annuity market, so that rates are more easily understandable and accessible to customers, with a clear picture of how individual providers' product offerings fit in with the wider market.

12.4.2 This significant step presents numerous challenges and will require additional consideration. For example, some customers are able to access guaranteed rates that would not be available on the open market; and rates are likely to become increasingly tailored to the person, so will be difficult to determine in a single number.

12.4.3 We will also look at what more we can publish, for example, retention rates and sales of enhanced, joint and escalating annuities. Publishing this level of data creates additional complications: for example, high retention rates could be explained by a number of factors, including a strong brand or competitive rates, as well as customer inertia.

12.4.4 Our commitment to transparency will need to take all of these factors into account and we will work with members to ensure it is achieved in a way that is genuinely helpful to customers, fair and accurate, while protecting commercially sensitive information. We will work up the detail of this commitment over the coming months to ensure that greater transparency is in place and reflected in the Code when it is implemented on 1 March 2013.

12.5 Reviewing the code and success measures

12.5.1 Respondents stated that we should make arrangements now for future reviews of the Code, including review for the impact of RDR and the possibility of electronic versions of wake-up packs. The Code will be reviewed after a year of implementation, in spring 2014, with input from the OMO Review Working Group or, if that group is no longer active, a similar grouping.

12.5.2 Several respondents sought detail on success measures for the Code: whether the objective is to encourage the number of people who shop around to reach 100%, or to help those who do shop around to conclude this sales process and buy a retirement income product with an alternative provider, or buy options such as death benefits escalation and enhanced annuities.

12.5.3 Suggestions were also made for research:

- Customers who have retired but not utilised the open market option should be asked what could have been done differently, and to explain their decision.
- Compare inertia and switching behaviour in other markets, such as energy and motor insurance and to review existing research in this area.
- Understand the full customer journey by observing behaviours throughout the shopping around process – the barriers they face, the length of time it takes, how they approach the problem and what role financial advice plays.

12.5.4 We will take these suggestions on board as we devise ways to assess the impact of the Code and additional changes that may be required.

12.5.5 Taking action is as important as understanding, and far more important than customers' stated intentions. The ultimate aim is to improve the number of people shopping around and getting the best shape of product and rate for them. We are working with members to improve the data we collect – for example, on internal and external sales of enhanced, joint and escalating annuities. We are exploring with members how our statistics can separate externally purchased annuities into Open Market Option annuities and those associated with a tied arrangement between providers; and annuities bought from group or individual pensions.

12.5.6 We will also need to monitor the impact of illustrations and would welcome data from members on actual behaviour with and without illustrations, to further test our position that many customers welcome an illustration but that it makes little difference to the buying decision.

12.5.7 In addition, we will continue to work with the OMO Review Working Group, which is investigating measures of success. We believe quantitative and qualitative research will be needed to assess the extent of understanding and shopping around. Research findings from members and other stakeholders will still be welcome.

12.6 Advice and status disclosure

12.6.1 A number of respondents raised questions about how the Code relates to the interaction of providers and advisers. We have clarified in a number of places how the customer can seek advice, including from their own or a workplace adviser, and when the provider needs to tell the customer about this.

12.6.2 Suggestions were also made about status disclosure: that anyone selling an annuity should be required to state from what pool of providers they are selling. Since any requirement in the Code would only apply to our members, its impact would be limited.

12.6.3 The Code will not determine the relationship between providers and advisers, as its focus is on the relationship between providers and customers.

The regulatory framework for advice is changing and once the new picture emerges, we will need to consider its impact on the market and the Code. For example, we want to avoid customers being referred to sources of advice that are not able to help.

13. Wider issues and future challenges

13.1 Throughout this process we have acknowledged that this Code must be interlinked with the rest of the savings and retirement landscape; and with other ways to promote consumer engagement and shopping around. To this end, we have ensured that the Code does not impinge on existing regulation. We will discuss with stakeholders how we can integrate the principles of this Code into trust-based occupational schemes, so that all pension scheme members can expect common standards and access information and advice about retirement in a logical and coherent way.

13.2 Several factors will affect the broader landscape, in the year in which this Code is implemented and beyond. That these factors are occurring simultaneously highlights the need for the Code to be responsive.

- The implementation of the ECJ gender ruling by 21 December 2012 will mean that annuity providers will not be able to differentiate prices on the basis of gender. This in itself presents a challenge to the market and is likely to lead to changes in the way annuities are priced and underwritten.
- As the market evolves further, there may be a need to define “enhanced annuity”, and other terms. There is a general understanding of what this means, which is reflected in the Code. But there are degrees to which an annuity is enhanced; and if more annuities become enhanced, its meaning may alter.
- An approach to how customers manage with a large number of small pots following auto-enrolment is an important public policy issue, currently under review by DWP, and a solution may be agreed before the Code is implemented.
 - The implementation of the Retail Distribution Review from 1 January 2013 will alter the market for financial advice and the relationship between customers, advisers and providers. We will need to monitor access to advice in all its forms and channels.

13.3 We will continue to work with the range of stakeholders in the OMO review working group to ensure the Code is relevant to the wider context in which it sits. The market will continue to evolve to adapt to these changes. All elements of the system – advice providers, all types of pension schemes, public policy and regulation – will need to combine to make it work most effectively. We will continue to engage with the debate on these wider issues wherever the industry has a part to play.

A person is sitting on a beige sofa in a room with large windows. The view outside the window shows lush green trees and foliage. The person is wearing a light-colored, short-sleeved shirt with a subtle grid pattern and a grey sweater. The background is slightly blurred, emphasizing the person and the indoor setting.

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The ABI Code of Conduct on Retirement Choices

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1. Introduction

This Code of Conduct has been developed by the ABI and its members to ensure that pension providers' communications to customers approaching retirement help every customer to make an informed decision by understanding:

- his or her retirement choices;
- the different product types available, and their appropriateness for the customer's circumstances, including enhanced annuities; and
- the benefits of shopping around for the most appropriate and competitive retirement income product.

2. Application of the Code

The Code sets out the rules that ABI members must follow throughout the retirement process, including where customers enquire about retiring early. It applies wherever an ABI member is communicating directly with a new or existing customer who can buy a lifetime annuity. The Code applies to ABI members in relation to trust-based occupational schemes in these circumstances; and otherwise where the provider is instructed by the trustees that it should apply.

These requirements must be followed in addition to any legislative or regulatory requirements that may also be relevant, but do not override any existing contractual requirements previously agreed with the customer, their trustees or another provider. This includes, for example, any agreement that the trustees of a scheme are responsible for compiling the customer communications, or any automatic conversion of a pension pot to an annuity at the age of 75.

3. The customer journey: summary

The primary purpose of all customer communications is to help the customer understand the decisions he or she must make, and to support him or her through the retirement process.

The provider must ensure that their communications take the customer through the following journey:

a) Understanding retirement

The customer must be clearly informed about the decisions he or she will need to make before receiving a retirement income. The timetable of these decisions must be set out clearly, and the possibility of deferring retirement, commuting or amalgamating pension pots must be explained.

b) Understanding the different ways to take retirement income

The provider must explain the range of ways retirement income can be taken, including those products they do not offer themselves. The provider must give the customer clear information describing the characteristics of the different products and where further information and help can be found. The provider must highlight the possibility of joint, escalating and enhanced annuities.

c) Understanding how to buy

The provider must encourage the customer to gather comparative quotations from different providers. In order to do this, the provider must clearly explain how this can be done, provide all the information needed and must not sell any product by relying on the customer's inertia or ignorance.

4. The customer journey

a) Understanding retirement

Between two and five years prior to their selected retirement date (SRD), a provider must communicate with a customer on an individual basis at least once to:

- Encourage the customer to start considering their retirement options
- Introduce the customer to the decisions they will need to make

This can be done through the annual pension statement, or alternatively through a separate customer communication.

If a provider has not already been approached by a customer about their retirement options, the provider must also:

- send out a 'wake-up' pack at least 6 months pre-SRD for trust-based occupational schemes and at least 4 months pre-SRD for contract-based schemes
- send out a 'follow-up' pack at least 10 weeks pre-SRD for trust-based occupational schemes and at least 6 weeks pre-SRD for contract-based schemes
- the provider must make an effort to trace the customer if the provider does not have a current address for the customer.

Both wake-up packs and follow-up packs must also:

- Highlight the importance of the communication and emphasise that the customer should not ignore it
- Be clear and jargon free (for guidance, see Customer Impact Clear Language and Layout Good Practice Guide, ABI Jargon Buster and the Plain English Campaign <http://www.plainenglish.co.uk>)
- Be targeted as much as possible to the circumstances of the individual customer
- Set out information in as accessible and engaging a way as possible, with signposting to key information where relevant
- Avoid inconsistencies and irrelevant information, or duplication within each pack
- Take account of customer preferences of the appropriate method of communication where possible
- Highlight the benefits of shopping around, and set out options including deferring retirement, commuting or amalgamating pension pots.

Follow-up packs must:

- Give a strong message of the need to make a decision

Both through the wake-up and follow-up packs, and when approached by a customer about their retirement options, a provider must:

- Encourage the customer to consider their circumstances and their retirement income options
- Encourage the customer to seek financial advice and/or further information (by at least signposting them to the **useful customer resources**)
- Explain the timescale of the retirement process
- Explain the decisions the customer needs to make at each point of the retirement process

b) Understanding the different ways to take retirement income

Both through the wake-up and follow-up packs, and when approached by a customer about their retirement options, a provider must:

- Explain the range of ways in which a customer can receive their retirement income, including the different annuity options and products available, particularly the possibility of medical conditions or lifestyle choices leading to a higher level of retirement income, and including joint and escalating annuities and ways to keep savings invested (see **Annex A** for brief descriptions of these products)
- Encourage the customer to seek further advice and/or information about the different ways in which they might be able to take their retirement income (by at least signposting them to the **useful customer resources**)
- Highlight any applicable guaranteed annuity rate (GAR) or other guarantee or market value reduction (MVR)

Both wake-up packs and follow-up packs must also:

- Prominently highlight the possibility of medical conditions or lifestyle choices leading to a higher level of retirement income
- Prominently highlight any applicable guaranteed annuity rate (GAR) or other guarantee
- Include the Money Advice Service leaflet

c) Understanding how to buy

Both through the wake-up and follow-up packs, and when approached by a customer about their retirement options, a provider must:

- Indicate the value of the customer's pension pot
- Explain the benefits of shopping around and that other providers might offer a higher level of retirement income
- Explain that the provider might not offer the annuity options or product that best meets the customer's needs

- Explain to the customer how to shop around and encourage the customer to seek further advice and/or information about this (by at least signposting them to the **useful customer resources**)

Both wake-up and follow up packs must also:

- Make available all information about a customer's pension pot needed for shopping around in one easily accessible place (see **Annex A**)
- Prominently highlight the benefits of shopping around and state clearly that other providers might offer a higher level of retirement income
- Include a shopping around guide (see **Annex B**) [*NB this may be changed if the guide is incorporated into the MAS guide*]
- Not allow the customer to purchase an annuity from the provider without first contacting that provider
- Not include an annuity application form unless specifically requested by the customer.

5. Unrequested Illustrations

An unrequested illustration that is included in the wake-up or follow-up pack, where a provider demonstrates the level of income the customer's pension pot could buy, must:

- be for the purposes of:
 - encouraging the customer to consider which annuity is most appropriate for his or her circumstances, and
 - demonstrating the impact the decision will have on their retirement income
- clearly state that all rates are indicative, where that is the case
- show a rate that the customer is able to access
- use standardised payment options, unless the customer cannot access these
- be as concise and clear as possible
- clearly and prominently state that the customer may be able to obtain a higher rate by shopping around

Unless the customer has requested an alternative, an illustration must clearly set out at least:

- any applicable GAR or other guarantee
- a single-life annuity
- a joint-life annuity

and either an escalating annuity, or a prominent statement as follows:

“[This illustration does not include / we do not offer] an escalating annuity. An escalating annuity helps you keep up with inflation. With this type of annuity your payments will start lower than with other annuities, but will increase over time. Please contact us if you would like us to provide an illustration for an escalating annuity.”

and either an enhanced option, or a prominent statement as follows;

“[This illustration does not include / we do not offer] a rate based on your health or factors that affect how long you might live, such as medication you take, where you live, your occupation and whether you smoke. This is known as an enhanced annuity and if you are eligible for one, [this type of annuity / another provider] could offer you a much higher level of income.”

6. The sales process

Providers must not send an annuity application form to customers in either the wake-up packs or follow-up packs. An annuity application form must not be sent until contact has been made between the customer and a provider.

A personalised illustration must be provided to the customer before the sale of an annuity is completed. This may be by telephone or in writing, or any other method the provider considers appropriate.

When collecting information from the customer in order to send out a personalised illustration, annuity quotation or to sell any retirement income product, the provider must ensure the customer is asked the following questions and at each appropriate point is explicitly and clearly made aware of any risk resulting from their answers. This can be done by ensuring the customer has filled out a comprehensive information collection form whether online or in hard copy, by means of a telephone conversation, by ensuring the customer has consulted a financial adviser, or by any other method the provider considers appropriate.

- Whether they are taking any small pots as cash and/or taking tax free cash
- Whether they are married/partnered or have a dependent who might outlive them
- Whether they are concerned about their income losing value because of inflation
- Whether they have any lifestyle or medical conditions that may mean they are eligible for an enhanced annuity
- Whether they have any other pots and would benefit from combining them

The provider must also highlight to their customer the benefits of shopping around.

When quoting or selling an annuity, a provider who does not offer an enhanced annuity must make the following statement:

“We do not offer a rate based on your health or factors that affect how long you might live, such as medication you take, where you live, your occupation and whether you smoke. This is known as an enhanced annuity and if you are eligible for this type of annuity, another provider could offer you a much higher level of income.”

Providers must make all payments promptly and accurately, to the same standards as would be achieved through the Options service.

Provider communications following purchase must:

- confirm the details of the purchase
- clarify the details of any cancellation rights

Where a product was bought through the Open Market Option, both providers must:

- use best endeavours to ensure the product is set up within 30 days from receipt of information by the receiving provider to completion of the contract by the provider
- use Options where possible

Where a customer's purchase is delayed, the provider must take steps to resolve the delay as quickly as possible and keep the customer informed.

7. Terminology

The ABI encourages its members to use plain English in communications with customers.

This Code does not require ABI members to use particular terminology. For example, it uses phrases such as “enhanced” and “escalating” annuities but members can equally use “impaired” or “increasing”.

Where the Code refers to customers, it means both prospective and existing customers.

8. Useful customer resources

For general retirement advice and information

- The Money Advice Service, 0300 500 5000, www.moneyadviceservice.org.uk
- The Pension Advisory Service, 0845 601 2923, www.pensionsadvisoryservice.org.uk
- The Pension Service, 0845 6002 537 for pension tracing, plus information about pensions including State Pension forecasts:
www.direct.gov.uk/en/Pensionsandretirementplanning/index.htm

For financial advice and to find an adviser

- IFA Promotions, www.unbiased.co.uk
- Personal Finance Society, www.findanadviser.org
- [*A suitable directory of specialist retirement income advisers will be added once this is available*]
- You may be able to access advice through your workplace and can use your current financial adviser, if you have one

For information about different retirement income products

- The Money Advice Service leaflet “Your pension – it’s time to choose”
- The Pensions Regulator leaflet “Making your retirement choices – think before you choose”
- The Pension Advisory Service, including an online annuity planner
www.pensionsadvisoryservice.org.uk

For help with shopping around

- The Money Advice Service online retirement income comparison tool,
www.moneyadviceservice.org.uk/tables



Annex A – Template cover letter for wake-up and follow up packs

Objective

The cover letter to both the wake-up and follow-up pack must:

- Give customers all the information they need about their pot to shop around
- Emphasise the importance of shopping around
- Highlight the most important questions the customer must answer in order to choose an appropriate retirement income product.

Use of the template and key points that must be made

Providers must use the template to ensure that:

- The cover letters are engaging, relevant and short (3 pages at most)
- Their customers are taken through the customer journey set out in this code
- The value of the pension pot, any guaranteed annuity rate or other guarantee, and any market value reduction is included on the first page
- The three questions on the customer's circumstances are included
- The headline message and summary of information appear on the first page of the letter
- The text in the headline message is used.

Providers do not need to use template's exact wording or order, unless stated here. Sections that are not applicable to the customer need not be included.

Any shopping around service offered by a provider, or other way to access advice, may be highlighted in the letter.

Occupational schemes

If the provider is issuing the wake-up letter to the trustees, sufficient time must be allowed for the trustees to forward the information to the member to meet the six month deadline. This material may include a letter to the member, depending on arrangements between the provider and the trustees, as mentioned in section 2.



[1 – Headline message]

This letter contains important information to help you to turn your pension savings into a retirement income. It's important that you read this letter and consider all your options – it will help you get the best value from your savings.

[2 – Introduction]

Dear [X]

You are approaching your selected retirement date, and will soon need to make a decision about what to do with the money you have saved with us. Buying a retirement income has been made easier recently and this letter and the accompanying information will help you to do this. You should also shop around and consider taking advice to find the best possible income and the enclosed Shopping Around guide [*NB this may change if incorporated into MAS guide*] explains how to do this.

If there is anything you don't understand or you would like to talk through your options, please contact us on [XXXXXXXXXX]. Alternatively, you can ring The Pensions Advisory Service for free impartial information and guidance on all pension matters on 0845 601 2923.

[3] Summary of information [*Firm to insert information*]

- **Name of policyholder:**
- **Policy number:**
- **Current value of pension pot:**
- **Information on any GAR (or other guarantee) or MVR:**

[4] Retirement Options

There are many different ways you can take your retirement income. Below are a few of the most popular options and there is more information about each of them in the accompanying brochure. Once you have decided what you want to do, please get in touch with us and let us know.

a) Postpone taking your retirement income

You do not need to do anything with your pension pot yet. You can leave it with us and we will contact you again in X years. Please let us know if you want to do this on the form included.

b) Taking smaller pension pots as a lump sum [*If appropriate and relevant to scheme*]

If the total value of all your pension savings is less than [*£X,000 (current tax year)*], you may be able to take it all as a cash lump sum. If you wish to do this, you have to take all payments from all your pots within a 12-month period. If up to two of your pots is each less than [*£X,000 (current tax year)*], you may also be able to cash each of them in, regardless of any other pension savings you have.

If you think you might like to do this, please ask us for further details.

c) Tax free cash

You can usually take up to a quarter of your pension pot tax-free as a cash lump sum, using the remainder to buy a retirement income product.

d) Buy a retirement income product

i) Annuities

An annuity is a financial product where you use all or some of your pension savings to buy a guaranteed income for the rest of your life. It is the most popular way people buy a retirement income and, if you have built up more than one pension pot, you can combine them into one annuity.

Buying an annuity is a one-off decision that will set your income throughout your retirement and cannot be changed.

You do not have to buy an annuity from us, and you should shop around to make sure you buy the right type of annuity for you. The Shopping Around guide enclosed [*NB this may change if incorporated into MAS guide*] contains more information on how to collect different quotations from different annuity providers.

There are many different types of annuity, each designed to suit different personal circumstances. If you plan to buy an annuity, you should consider the following questions:

- **Are you married or do you have a partner or another dependant? Will they need an income if you die first?**

If so, you should consider a joint-life annuity, which continues to pay an income for both of your lives.

- **Do you smoke? Are you on any medication or do you have a medical condition?**

If so, you may be eligible for an enhanced annuity, which could pay you a much higher level of income.

- **Do you want your income to increase over time to help keep up with inflation?**

If so, you should think about an escalating annuity, which starts lower but increases over time, or adjusts to rise in line with inflation.

There is a free online annuity planner at www.pensionsadvisoryservice.org.uk which can help you answer these and other questions about which type of annuity is right for you.

ii) Products that keep your money invested

Some retirement income products allow you to keep your money invested, which gives the potential for your income to grow, but the income is not guaranteed and there is a risk that your income will go down.

Flexible investment-linked annuities provide an income for life but allow you to keep your money invested.

Fixed term annuities use part of your pension to provide income for a fixed period.

Drawdown allows you to draw an income from your pension while keeping it invested.

The accompanying brochure includes information about these other ways you could take your retirement income. You should speak to a financial adviser if you are thinking about one of these products.

[5] The Lifetime Allowance *[if appropriate]*

If the total value of all your pension funds is more than *[£X,000,000 (current tax year)]*, and you have not taken steps to protect your funds, we have to apply a 'Lifetime Allowance' charge set by the Government. We strongly recommend that you take financial advice if your total pension savings exceed or are close to this amount.

[6] What happens next? *[in line with the provider's process]*

Please contact us to discuss what you would like to do with your pension pot, either by telephone on *[XXXXXXXXXX]*, or by filling in the form enclosed. If you do not get in touch with us, we will write to you again in *[x-x]* weeks.



Annex B – Template shopping around guide

[NB will be removed if it is incorporated into the MAS guide, but the messages will remain]

Objective

The shopping around guide has been designed to encourage customers to shop around and support them through the process by:

- Showing them different methods of shopping around
- Alerting them to the questions they will be asked
- Helping them gather the information necessary to answer those questions, and
- Showing them where to go for help with shopping around.

Use of the template

Providers must use the template to ensure that their shopping-around guide:

- Is a separate leaflet of no more than three pages that is clearly distinguishable from other material in the same communication pack
- Actively encourages customers to look beyond the provider's own products
- Accurately signposts the customer to where further information can be found either in the provider's material, or from another source.

Providers are not required to reproduce the wording or order of the template exactly, but must include links to the external organisations mentioned.



SHOPPING AROUND CAN HELP YOU IMPROVE THE INCOME YOU RECEIVE IN RETIREMENT

How do I shop around?

Using a financial adviser

Financial advisers are qualified professionals who can give you individual advice on your retirement income. They can assess your individual circumstances, talk you through your options and recommend a provider that offers the right product for you.

You can find an adviser near you at these websites;

www.unbiased.co.uk or www.financialplanning.org.uk

[a suitable directory of specialist advisers will be added once this is available]

You may be able to access a financial adviser through your workplace and can use your current financial adviser, if you have one.

Using a comparison website

The Money Advice Service offers a free and independent comparison website for standard annuities which can be found here; www.moneyadviceservice.org.uk.

There are several websites which offer a dedicated shopping around service, allowing you to compare and purchase different annuities offered by different providers, just like with motor or travel insurance.

Talking directly to the product providers

If you want to talk to any product provider about what they can offer, the Association of British Insurers has collected many of their contact details here: www.tobecreated.com

What questions will I be asked?

Questions about your pension savings

You will need to answer questions about how much money you have saved in a pension. You should also be aware of any guarantees or restrictions that might apply to some or all of this money and of any other pension savings you have with other providers before you select a retirement income product.

We have sent you all the necessary information about the money you have saved with us along with this guide. If you don't understand what we have given you, you can contact us and ask us to explain it or go to one of the free and independent bodies listed on the last page of this guide.



Questions about how you want to take your retirement income

There are lots of different retirement income products such as annuities or income drawdown, and lots of different ways in which you may be able to take your money at the best time for you.

For example, if the total value of all your pension savings is less than £18,000 and you are over 60, you may be able to take it all as a cash lump sum. You should also consider whether you should make sure your partner (if you have one) is provided for if you die before them.

We have included some material with this guide explaining the different products available. You can get more information and help with understanding it by talking either to us or the free and independent bodies listed on the last page of this guide.

Questions about you

You will be asked questions about you and your partner such as how old you are and where you live, as these factors may affect the level of income you receive.

Also, if you or your partner answer yes to any of the following three questions **you could be eligible for a much higher level of income** and will need to be prepared to complete a questionnaire about any medical or lifestyle conditions you or your partner might have.

Do you smoke?

Have you been diagnosed with a medical condition within the last 10 years?

Are you on any medication for a health condition?

Conditions can range from minor illnesses such as high blood pressure or high cholesterol right through to more serious conditions such as a heart attack or stroke.

You can get the full questionnaire from your financial adviser, an enhanced annuity provider, or from this website www.commonquotation.co.uk. Make sure you or your adviser is using the most up-to-date version of this form. You might need to talk to your doctor to get the details of any medication you are receiving or treatment you have had.

Where can I go for help?

The **Money Advice Service** is a great place to start. You can go to their website www.moneyadviceservice.org.uk to find lots of information about pensions and retirement income products, and use their unbiased comparison tables to help you compare annuity rates. Their Money Advisers can help you with your money questions on 0300 500 5000. Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes.



Association of British Insurers 51 Gresham Street, London EC2V 7HQ Tel: 020 7600 3333 Fax: 020 7696 8999

The **Pensions Advisory Service** also gives free and independent advice on pensions and has a free helpline you can call on 0845 601 2923. They also have an online annuity planner that can help you choose what sort of annuity is right for you:

www.pensionsadvisoryservice.org.uk

We can explain anything you don't understand about your pension pot or the information we have sent you. You can call us on 01234 567 8910 or email us at:

[\[lhaveyourmoney@provider.com\]](mailto:lhaveyourmoney@provider.com)



Annex C - Compliance

All ABI members must be compliant with this Code as a condition of Membership. All CEO's of affected companies must complete and sign the attached letter annually.

Providers must be able to demonstrate that they are assessing the impact of their communications and processes on customers' retirement choices. To do this, they must:

- Monitor customer responses to communications about retirement choices
- Collect information on the number of retirement income products being bought by internal and external customers, if applicable
- If applicable, monitor the number of days taken to complete the sale of an annuity, using the points mentioned on p.6
- Share with the ABI the results of the above exercises
- Submit a sample of communications materials to the ABI, who will commission an external review of all communications to assess effectiveness of the Code in the first year after implementation and in subsequent years if appropriate.

CHIEF EXECUTIVES' COMPLIANCE LETTER

If applicable, please return a letter on your company headed paper, including these paragraphs and signed by your Chief Executive, by first Friday in March, annually to:

*Association of British Insurers,
51 Gresham Street,
London EC2V 7HQ*

Retirement Choices Code of Conduct

I can confirm that [XYZ Company Ltd] complies with the ABI Retirement Choices Code of Conduct. I have caused checks to be carried out to confirm that our processes and communications meet the rules set out in the Code and I have taken appropriate action where any shortcomings have been identified.

[Signed]

Name

Company or companies covered by the letter