FINANCIAL CONDUCT AUTHORITY

The Pensions Regulator

Regulating the pensions and retirement income sector: our joint regulatory strategy

October 2018

This relates to

In this document we set out our joint regulatory strategy for the pensions and retirement income sector, following on from our call for input: 'Regulating the pensions and retirement income sector: Our strategic approach'. We have also published a summary of the feedback from stakeholders in response to that call for input.

You can download this document from the FCA's website: www.fca.org.uk and TPR's website: www.tpr.gov.uk

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Foreword

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While our statutory remits are different, the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have always worked in tandem to address risks and harms in the pensions and retirement income sector. Over the past two years we have each been involved in introducing major policy reforms which have fundamentally shifted the landscape of this sector such as automatic enrolment (AE) and the pension freedoms.

Earlier this year, in light of these changes, we decided to extend and deepen our cooperation by producing a joint regulatory strategy. This outlines how we already do and in future will work together to tackle the issues we see facing the sector over the next five to ten years.

We wanted to give everyone with an interest in this area the opportunity to contribute to the development of our strategy. To do this, we published a Call for Input (CFI) in March 2018 and followed that up with stakeholder events in London, Edinburgh and Manchester. We are grateful to all of those who took the time to offer their feedback and we are delighted that we can now share our joint strategy with you.

We believe that implementing this strategy will make a significant difference in enabling pension scheme members and consumers to make the most of their savings and in ensuring that their money is being well looked-after and managed in line with their needs.

Over and above the important content of this report, its publication also marks a milestone in the evolution of both regulators and in our working relationship.

For the FCA, it is another step forward in the delivery of our Mission and a manifestation of our increasingly forward-looking approach to regulation. It also links to our ongoing work on intergenerational issues, within which pensions are a central theme.

For TPR, it is a key component of our work to transform our approach to regulation, as outlined in the TPR Future programme. The workstreams and initiatives described here form part of our commitment to be clearer, quicker and tougher, using a wider range of proactive interventions with schemes, trustees and employers.

The publication of this joint strategy also marks a step-change in our relationship, collaborating more closely to identify and explore the issues that concern us and working together to resolve them.

We live in a complex and fast-changing world and the pensions and retirement income sector is a particularly complicated part of it. Success in delivering this strategy requires action not just by us, but also by government and its agencies and by employers, pension schemes, advisers and providers.

We call on everyone involved in the sector to help us on this journey and to ensure the best possible outcomes for pension savers, now and in the future.

Executive summary

The FCA and TPR work together to address the risks and harms in the pensions and retirement income sector, particularly where we have shared concerns. We have developed this strategy jointly with the aim of helping ensure the sector delivers the best outcomes for pension savers and those in retirement, now and over the next decade.

Pensions are changing

The way people save for and take their pensions has changed fundamentally and will continue to do so. Automatic enrolment (AE) has created new responsibilities and choices for UK consumers and for employers. The shift away from defined benefit (DB) pension schemes, low levels of savings, low interest rates and increased longevity all create long-term challenges. In the shorter term, problems such as scams and poor pension transfer advice put people's savings at risk.

These challenges contribute to concerns that many of the UK's future pensioners will have to live on lower incomes than they expect and for longer. This is potentially a significant problem, with implications for millions of people and for public policy makers. We explore these issues further in Section 1 of this document.

Our regulatory strategy

From our work developing this strategy, we have identified that the overarching harm in this sector is the prospect of people not having adequate income, or the income they expected, in retirement. This overarching harm is not something that the FCA and TPR can tackle on our own, although we can make a difference by addressing some of the key issues that lead to it. These are illustrated in Figure 1 and explored further in Section 2.

For each of the four key issues we have identified, we have set a clear objective that describes the outcome we want our regulatory actions to achieve. We have then outlined the workstreams we will undertake to deliver that objective. Again, these are illustrated in Figure 1 and we give more detail on the proposed initiatives in Section 3.

Many of these initiatives are already underway or planned. However, in developing this strategy we have identified two new priority areas for joint action:

- a review of the consumer pensions journey
- where relevant, setting and enforcing clear standards for delivering value for money

We will also continue joint action already underway by strengthening our collaboration on combatting pension scams and intensifying work on DB transfers.

The priority areas for joint action are highlighted in bold in Figure 1.

The overarching harm in this sector is the prospect of people not having adequate income, or the income they expected, in retirement.

Figure 1: Summary of our regulatory strategy

Overarching harm	People not having adequate income, or the level of income they expected, in retirement			
Key issues	People struggling to maximise their pension savings	Money not being managed in line with savers' needs	Pensions not being well looked after	People not being enabled to make good decisions
Areas of focus	Access and participation	Funding and investments	Governance and administration	Consumer understanding and decision-making
Regulatory objectives	Pensions and retirement income products support people to increase their financial provision for later life	Pensions are well-funded and invested appropriately	Pensions are well-governed, well-run and deliver value for money	People access helpful information, guidance and advice that enables them to make well-informed decisions
Workstreams	• Continued focus on employer compliance with automatic enrolment • Greater support and communication with employers, scheme providers and intermediaries • Increased joint effort to support public policy development	• More proactive use of a broader range of regulatory interventions on DB funding • Focus on DC default arrangement design and execution • Implementing investment-related recommendations from the Retirement Outcomes Review (ROR) • Stronger regulation of and engagement with investment consultants and fund managers • Increased focus on Environmental, Social and Governance (ESG) factors in investment decisions	• Using a broader range of regulatory interventions to address poor governance and administration • Increased regulatory interventions and external collaboration to promote data quality and security • **Using a broader range of regulatory interventions to drive value for money**	• **Joint review of the consumer pensions journey** • Cross-agency collaboration on improving consumers' understanding, engagement and trust in pensions • Continued promotion of high quality and accessible information and guidance • Continued regulatory focus to promote the provision of sound and accessible advice • **A specific focus on improving member/ consumer outcomes from DB transfers** • **Strengthened multi-agency collaboration on combatting pension scams**
Ways of working	**Improved collaboration between FCA, TPR and others – including joint assessment of risks and harms, joined-up regulatory interventions, and improved communications**			

Adopting a more integrated approach to regulation will be instrumental to achieving our joint objectives. This will represent a step change in our relationship and enable us to have a greater impact by working more closely together. It will involve jointly undertaking risk assessments of issues in the sector, improved policy coordination and more joined-up communications – you can find further detail on this in Section 4.

We recognise that our joint strategy will need to continue to evolve, as the pensions environment changes and new sources of harm emerge. We will review the strategy and its linked action plan after three years, considering a wide range of quantitative data and our qualitative judgements. We cover this process further in Section 5.

Working with others

The pensions sector is complex. As regulators, we want to improve outcomes for consumers and members of pension schemes. But achieving our objectives will require co-ordinated action with many others, including government departments, guidance bodies, pension schemes and providers. Together, we will take the actions needed to ensure the best possible outcomes for pension savers and retirees.

Section 1:

The changing pensions landscape

Consumers struggling with low incomes and high levels of debt are likely to find it difficult to make sufficient pension savings.

The pensions sector has changed a lot in recent years and the evolving socio-economic environment is driving further developments. In this section we explore these and how they impact on our work as regulators.

Current trends and risks

Automatic enrolment (AE): TPR's Annual Report 2017-18 highlights the growth in the numbers of people contributing to workplace pensions, largely driven by the rollout of AE, which more than one million employers have now implemented. However, few employers and employees are making more than the minimum contributions and we share the Department for Work and Pensions' (DWP's) concerns about the number of people at risk of slipping through the net. This problem will increase with the rise of self-employment and the gig economy.

The move to drawdown: Sales of annuities are continuing to decline, from over 420,000 in 2012 to around 71,000 in 2017 and drawdown has become the most popular retirement income product. The FCA's Retirement Outcomes Review (ROR) found that a third of consumers who had gone into drawdown did not know where their money was invested, while another third had only a broad idea. Some providers are defaulting their customers into cash or cash-like assets, meaning they could lose out on investment growth.

Transfers out of DB schemes: FCA data suggests that the number of transfers from DB schemes into contract-based defined contribution (DC) schemes has increased by a factor of nearly three in the last year. Unsuitable advice has particularly serious consequences for consumers transferring out of DB schemes – potentially resulting in lower retirement income and the risk of running out of money.

Low wage growth, growing debt: Against a backdrop of low or stagnant real wage growth, data from the Office for National Statistics (ONS) shows the UK household debt-income ratio reached its lowest level since the financial crisis in late 2015 and then rose to over 130% of disposable income in mid-2017. Consumers struggling with low incomes and high levels of debt are likely to find it difficult to make sufficient pension savings.

A population living for longer on less: ONS figures show that, in 1989, the average 65-year-old woman could expect to live to around 84 and the average 65-year-old man to around 80. Although recent ONS figures show that life expectancy rises have plateaued, by 2039 the equivalent figures are expected to be 91 and 89 respectively. Many consumers are likely to have seriously underestimated the length of time their retirement income will have to last for and, potentially, the cost of care in later life. FCA data, showing average DC pension pots at retirement of £50,000 in 2017, strongly suggests a significant risk that many individuals' pension savings will be insufficient to meet their needs.

Longer-term trends and risks

Emerging trends: In our CFI we identified the following trends as likely to drive change across the pensions sector in the next five to ten years – some of these are continuations of the current trends that we have described above:

- macro-economic trends, such as low interest rates and increased economic volatility
- changing demographics, including the ageing population
- increasingly stretched household finances
- opportunities and threats from increased use of technology, such as artificial intelligence and blockchain
- labour market changes such as more self-employment, more part-time jobs and zero-hour contracts (including through the gig economy)

Additional trends: Stakeholders who responded to the CFI also identified several other trends and risks as being potentially significant, including:

- shifting consumer preferences – including greater digital engagement
- environmental changes, including climate change and its wider impacts
- political uncertainty, including the longer-term effects of Brexit
- potential for further pensions reform eg in the treatment of pensions taxation
- changing preferences for different types of pension savings and provisions, including the shift from DB to DC – and, in particular, master trusts – and the potential introduction of Collective Defined Contribution (CDC) schemes
- increasing use of non-pensions vehicles to save for retirement, including ISAs and property – linked to growth in the use of equity release, from a relatively low base
- consolidation within the pensions sector, both in occupational schemes and in contract-based providers

Impact on regulatory risks and harms: Although no one can predict the exact course of these trends, we can foresee some of the impacts they are likely to have on the harms and risks that concern us. For example:

- greater economic volatility would increase the risk of poor investment outcomes and of consumers potentially making poor decisions in response to that volatility
- digital technology offers some significant potential benefits (eg in improving consumer experience and engagement) but also brings with it potential risks of harm

These trends and their expected impacts have informed the design of our regulatory strategy which is set out in Section 3. The FCA's ongoing work on intergenerational issues has also fed into this. We will keep a close eye on these trends – and on any new ones that emerge – in our work and will continue to coordinate our thinking and response to them over the coming years.

Digital technology offers some significant potential benefits... but also brings with it potential risks of harm.

Section 2:

Issues we identified

We have looked broadly across the pensions and retirement income sector to identify the harms and risks that we believe will have the greatest impact over the next five to ten years. To help this process, we published the CFI seeking stakeholder views and held three events in London, Manchester and Edinburgh.

Around 200 stakeholders attended these events and we received over 50 written responses to our CFI. We are grateful to everyone who attended or wrote to us. This strategy reflects the feedback we received and our own analysis of the key harms and risks in the sector, based on insights from our supervision, oversight and enforcement work. We have published a summary of this feedback.

Overarching harms and risks

In our CFI we said that the biggest potential harm in the sector is the prospect of people not having adequate income, or the level of income they expected, in retirement. Stakeholder feedback has generally endorsed this view. Our analysis finds that the secondary harms, risks and drivers that lead to this overarching harm fall into four broad categories. These are illustrated in Figure 2 and then explored in turn in the sections that follow.

Figure 2: Summary of harms and risks

Overarching harm	People not having adequate income, or the level of income they expected, in retirement			
Key issues	**People struggling to maximise their pension savings**	**Money not being managed in line with savers' needs**	**Pensions not being well looked after**	**People not being enabled to make good decisions**
Example harms, risks and drivers	• consumers miss out on the pension savings and benefits they are entitled to (under AE) • negative impact of consumers deciding to opt out of pension saving • people not saving enough for their own retirement • lack of availability of appropriate products	• consumers receive lower levels of retirement income due to underfunding of DB schemes • negative impact of poorly implemented pension investment /de-risking strategies • unsuitable workplace pensions • unsuitable non-workplace pensions and retirement income products	• money lost through governance or administration errors • poor value workplace pensions • poor value non-workplace pensions or retirement income products • harm from cyber-crime/ data breaches	• money lost through unsuitable pension transfers (especially from DB) • money lost because consumers choose unsuitable products or receive unsuitable advice • harm caused by consumers' inability to access advice • losses resulting from pension scams

A. People struggling to maximise their pension savings

Overall, employers' compliance with automatic enrolment is high. So far, over one million employers have complied with their duties and over nine million employees have been enrolled. However, some people miss out on pension savings because employers do not comply with their AE duties, whether intentionally or not. The reasons for this can include lack of understanding of the rules, poor administration and financial difficulties.

So far, opt-out levels have been low, although it remains to be seen what impact the increased minimum contributions in 2019 will have, alongside rising household debt and low rates of income growth. There is also the potential that changing macro-economic conditions or a loss of trust in pensions could lead to higher levels of opt-outs, or significant cash withdrawals at retirement. Either of these would be a concern to us.

Changing working patterns, including people working multiple jobs and the growth in self-employment, mean that many working people are not captured by AE. Few of these are choosing to set up their own private pensions. There is also little evidence of people who are included in AE choosing to make additional contributions above the minimum, except where there is a direct incentive to do so (eg employer matching contributions). Lack of participation and low levels of voluntary contributions may be driven by factors such as economic hardship, a lack of interest in saving for retirement, a preference for non-pension savings such as property and a lack of ready access to affordable advice.

Women are saving less than men: From a gender perspective, participation levels in AE are similar for men and women who are eligible. The pensions savings gap for women is driven mainly by differences in lifetime earnings. However, the fact that women earn less than men on average and are more likely to be working part time makes it more likely that they do not qualify for AE. And their lower levels of trust in, knowledge of and engagement with pensions (highlighted in the FCA's 2017 Financial Lives survey) may discourage them from participating in private pensions – making it harder for them to close the gap in savings levels.

B. Money not being managed in line with savers' needs

TPR's assessment of the funding positions of DB schemes suggests a marginally better funding level in total compared with three years ago. However, TPR anticipates wide variations between individual schemes, depending on their exact valuation date and other specific circumstances such as their approach to risk management.

Most members in workplace DC schemes are invested in default arrangements, ie their investments are chosen for them. The design and governance of these funds has come under increased scrutiny in recent years and the new authorisation and supervision regime for master trusts will allow TPR to have closer oversight of that sector. However, we still have concerns about:

- smaller trust-based schemes, where trustees may be less engaged, lacking the skills or influence to achieve good outcomes for their members
- 'orphaned' schemes which no longer have a trustee, or which no longer have an investment adviser looking after the default arrangement
- unsuitable investments being included in non-workplace pensions, particularly Self-Invested Personal Pensions (SIPPs)
- insufficient attention being given to financially material Environmental, Social and Governance (ESG) factors in investment decision-making – as flagged by the Law Commission in their recent reports on Fiduciary Duties of Investment Intermediaries and on Pension Funds and Social Investment

The FCA's work on the ROR has flagged several concerns around consumers' savings not being invested appropriately within retirement income products such as drawdown. This includes, specifically, the number of consumers whose pensions are invested in cash or cash-like assets after accessing their tax-free lump sum, which limits potential for growth, even though they may have a potentially long time to retirement.

C. Pensions not being well looked after

Governance: There are often very good standards of governance in the occupational sector. However, we have identified challenges, particularly with smaller schemes where specialist skills, knowledge and resources may be less readily available. Stakeholder feedback suggests that trustees need more help in understanding what good governance looks like, what specifically is expected of them and where to look for best-practice examples.

In the contract-based sector, first-line governance comes from the pension provider – particularly its board and executive management. This is being strengthened by the introduction of the Senior Managers and Certification Regime (SM&CR). For workplace pensions, Independent Governance Committees (IGCs) provide an additional layer of governance and have been helpful in addressing high costs and charges in legacy schemes. The FCA's review of non-workplace pensions is also examining the role of governance in that market.

Administration: Administration and data management are major challenges across the pensions sector. Data is a particular issue for smaller occupational schemes, which may lack the resources and expertise that larger schemes enjoy. But it can be equally a major issue for large contract-based providers with legacy IT systems and/or a complex corporate history.

There is a particular problem with 'lost pots', where the scheme or provider has lost contact with the member or consumer. Without industry action, the number of lost pots is likely to increase over time, due to the interaction of AE with modern working and living patterns. The pensions dashboard, once implemented, will be a big step forward in helping to reunite people with their lost pots.

Another problem has been the time it takes to transfer a pension from one scheme, provider or platform to another one. The industry has made some progress in recent years in reducing transfer times, but there is much further to go and we welcome the work of the cross-sector Transfer and Re-registration Industry Group (TRIG) on this topic.

Value for money*:* Value for Money (VFM) is complex to assess and is about quality as well as price. Feedback from stakeholders suggests they would like more support with defining VFM and no industry-wide methodology for assessing VFM has yet emerged. TPR's DC survey also suggests that trustees of smaller occupational schemes struggle particularly with assessments of VFM and some may be in breach of their legal duties.

Within the workplace sector, the charge cap on default arrangements helps to limit the risks of harm. TPR and the FCA have previously focused strongly on VFM in legacy workplace schemes, where the position is improving. The FCA has focused relatively less on VFM in non-workplace pensions, but this is now being examined in the FCA's review of that market. In the retirement income market, the ROR flagged weak competitive pressure and consumer inertia as potential drivers of poor value.

A significant proportion of the overall charges paid by pension savers arises from charges on the underlying investments, including both explicit management charges and transaction costs. For this reason, improving VFM for pensions is reliant on schemes and providers driving VFM from their asset managers. The FCA's work on improving competition, arising from the recent Asset Management Market Study (AMMS), and the industry-wide efforts to improve disclosure of transaction costs will both enable progress on this front.

D. People not being enabled to make good decisions

Understanding, engagement and trust: There are several drivers for consumers' lack of understanding and trust in pensions, including generally poor levels of financial literacy and the complexity and fast-changing nature of pensions products and tax rules. Some media coverage of corporate failures also contributes to the lack of trust.

Behavioural biases and information gaps further contribute to poor decision-making around pensions. These include a focus on short-term gains and losses and consumers under- or overestimating their own longevity.

Disengagement continues into retirement, with large numbers of people – particularly those with smaller pots – choosing to cash in their pensions and re-invest in other savings and investment products. This suggests that many consumers want to save, but not just in pensions.

As a result of these challenges, only around a quarter of the population currently feels confident enough to choose a pension product without advice. It is particularly important that those involved in the sector recognise the generally low levels of understanding and engagement and provide appropriate levels of support to consumers as they make important decisions regarding their pensions and retirement plans.

Information and guidance: The information pension schemes and providers offer tends to be complex and can intimidate consumers. We are keen to ensure that our regulation supports the industry in delivering clear, accessible and relevant information and welcome the work currently being done on simpler annual pension statements.

There is now a range of high-quality, free guidance available from sources such as Pension Wise, the Money Advice Service (MAS) and The Pensions Advisory Service (TPAS). However, take-up of these services, while increasing, remains lower than we would like. We are keen to support the efforts of the new Single Financial Guidance Body (SFGB), once created, to improve the levels of access to and engagement with the various sources of guidance.

Pensions advice: High-quality pensions advice can be a major benefit to consumers. While much good advice is available, we know that there are issues both with the quality of some advice and with the affordability and availability of advice for the mass market. We are optimistic that, over time, innovations in technology may help to bring good-quality, affordable advice services for some aspects of pensions to a greater proportion of the population.

We remain particularly concerned about the delivery of advice for DB transfers, given that recent FCA supervisory work has found that a significant proportion of advice given is either unsuitable, or not clearly suitable. The FCA and TPR will take all necessary action, both singly and jointly, to improve outcomes for members and consumers in this area – we cover this further in the next section.

Preventing scams: The large amount of money held in pensions is an inevitable target for scammers. Some people making decisions about their pensions are particularly vulnerable and so are more susceptible to scams. Concerted action from partners[1] through Project Bloom has had a positive impact, for instance through intelligence-sharing and publicity campaigns on the dangers of scams – such as the recent ScamSmart campaign launched jointly by the FCA and TPR in August 2018. However, we know that scammers will continue to adapt their methods and threaten the security of pension pots.

1 Project Bloom partners include: TPR, FCA, DWP, HM Treasury, TPAS, the Pension Scams Industry Group, the Insolvency Service and the National Fraud Intelligence Bureau at City of London Police (incorporating Action Fraud)

Section 3:

Our regulatory strategy and action plan

We want our regulatory interventions to achieve four clear objectives, which correspond to the four key issues identified in the previous section. Delivery of these objectives will contribute to addressing the overarching harm of people not having adequate income, or the level of income they expected, in retirement.

The objectives are shown in the table below, and illustrated in Figure 3 – going beyond the traditional view of a pension 'pot' as a passive receptacle for money and seeing it as something that protects the savings inside and provides an environment where growth is nurtured.

	Area of focus	Regulatory objective
A	Access and participation	Pension and retirement income products support people to increase their financial provision for later life
B	Funding and investments	Pensions are well-funded and invested appropriately
C	Governance and administration	Pensions are well-governed, well-run and deliver value for money
D	Consumer understanding and decision-making	People access helpful information, guidance and advice that enables them to make well-informed decisions

Note: By 'pensions', we mean all types of pension, including products such as annuities and drawdown, that are used to generate an income in retirement. 'People' refers to members of occupational schemes, as well as consumers of private pensions.

Figure 3: Our regulatory objectives

Pension and retirement income products support people to increase their financial provision for later life

Pensions are well-funded and invested appropriately

Pensions are well-governed, well-run and deliver value for money

People access helpful information, guidance and advice that enables them to make well-informed decisions

In the sub-sections below we explore each of these objectives and the workstreams and initiatives we will use to achieve them. In the following section (Section 4) we also describe the ways of working needed to ensure that we can effectively regulate the sector and how we will work together – including with others – to deliver the strategy.

A. Access and participation

Our objective is that **pension and retirement income products support people to increase their financial provision for later life.** This is clearly ambitious and not something that we can achieve alone – it requires the coordinated actions of Government, employers, employees and consumers.

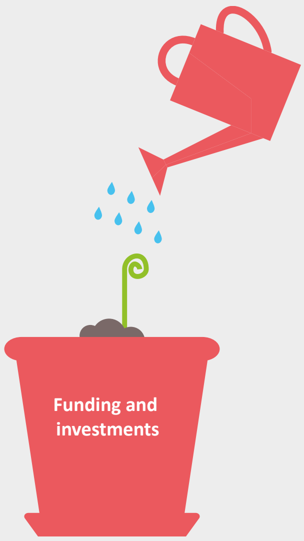
Nonetheless, it is an objective that we can make a meaningful contribution to; in particular, in TPR's case, by ensuring that employers comply with their AE duties. Also, more broadly, both TPR and the FCA can support an environment where people can easily and confidently make additional contributions to their workplace scheme, or set up their own private pensions.

To achieve this objective, we will focus our efforts on the workstreams and initiatives in the table below.

We expect our efforts to encourage people's understanding of and engagement with their pensions (as described in the 'Consumer understanding and decision-making' section) will also help support this objective.

Workstream	Led by	Relevant initiatives
Continued focus on employer compliance with AE duties	TPR	• enforcement activity against non-compliance • enforcement against late and missing pension contributions from employers • greater use of data to proactively check compliance
Greater support and communication with employers, scheme providers and intermediaries	TPR, with FCA support	• support and communication with employers about their AE duties • support and communication with scheme providers, intermediaries and software providers
Joint effort to support public policy development on access and participation	Joint TPR and FCA	• FCA research on levels of under-saving for retirement • TPR supporting DWP in implementing recommendations from the recent AE Review • FCA work on intergenerational issues

B. Funding and investments



Our objective is that **pensions are well-funded and invested appropriately.** This means that employers who are sponsors of DB pension schemes should make appropriate contributions, with a suitable balance between repairing pension scheme deficits and paying dividends to shareholders.

For both DB and DC pensions (including master trusts) and in both accumulation (building up pension funds) and decumulation (using those funds), the pension funds need to be invested appropriately. This involves achieving a suitable balance between investment returns and levels of risk and includes decisions that trustees, providers or other governance bodies make centrally (eg about the design of DC default arrangements) as well as those taken by individuals.

To achieve this objective, we will focus our efforts on the workstreams and initiatives in the table below:

Workstream	Led by	Relevant initiatives
More proactive use of a broader range of regulatory interventions to address DB funding	TPR	• starting one-to-one managed supervision with an initial group of DB schemes and implementing a range of regulatory tools so that more DB schemes will experience TPR intervention around their annual valuations and reduction of deficits • supporting DWP in implementing the policy intentions of the recent DB White Paper – including new powers for TPR, new codes of practice for trustees and employers and new authorisation and supervision frameworks for DB consolidators
Focus on DC default arrangement design and execution – including master trusts	Joint FCA and TPR	• parallel supervision work on the governance and oversight of DC default funds (FCA and TPR) • strengthening existing guidance for trustees on DC investments (TPR)
Implementing investment-related recommendations from the Retirement Outcomes Review (ROR)	FCA, with TPR support	• implementing proposed interventions from the ROR, ie introducing investment pathways and stopping default investments into cash (FCA) • considering how to take forward ROR recommendations for occupational pensions (TPR and DWP)
Stronger regulation of and engagement with investment consultants and fund managers	FCA, with TPR support	• implementing proposals arising from the Asset Management Market Study (AMMS) (FCA) • potentially extending the FCA's regulatory remit to cover investment consultancy and fiduciary management, if the Competition and Markets Authority (CMA)'s recent recommendation is taken forward (FCA) • introducing guidance for trustees on fiduciary investment services (TPR)
Increased focus on ESG factors in investment decisions	Joint FCA and TPR	• DWP consultation on strengthening trustee duties relating to ESG • work on new rules and guidance for IGCs and pension providers (FCA) • review of permitted links rules to address perceived barriers to wider pensions investment (FCA) • updating investment guidance following patient capital recommendations (TPR) • potential amendments to rules and legislation against the backdrop of the Shareholder Rights Directive and broader work on Stewardship (FCA and TPR)

Note: Several of these workstreams – including the DB funding stream in the table above and the governance/administration and data workstreams in the next section – will be particularly influenced by TPR's new regulatory model. This centres on:

- setting clear expectations
- enhanced regulatory oversight, using a wider range of regulatory interventions with more of the schemes and employers that TPR regulates

C. Governance and administration

Our objective is that **pensions are well-governed, well-run and deliver value for money.** This means that pensions should have strong administration processes and systems, that governance – whether via trustees, provider boards or IGCs – should be clear and effective and that pension savings and data should be protected from cyber-crime. In addition, pensions should deliver good value, with reasonable costs and charges that are in line with the quality of the product or service being offered.

This is a complex objective and we are already undertaking considerable work to deliver it. We will focus our efforts around the following workstreams and initiatives:

Workstream	Led by	Relevant initiatives
Using a broader range of regulatory interventions to address poor governance and administration	Joint TPR and FCA	• authorisation and supervision of master trusts (TPR) • 21st century trustee programme (TPR) • proactive regulation of public service schemes (TPR) • implementing SM&CR (FCA) • consideration of governance issues in non-workplace pensions and potential extension of IGCs' remit to include decumulation (FCA) • assessing governance arrangements in unit-linked and with-profits funds (FCA) • support to industry work on faster transfers and re-registration, including pensions (FCA and TPR)
Increased regulatory interventions and collaboration to promote data quality and security	Joint TPR and FCA	• ongoing work with the Bank of England and PRA on operational resilience (FCA) • collaborating with the Information Commissioner's Office (ICO) where there are areas of mutual regulatory interest in the pensions market (FCA and TPR) • academic research on cyber risks and resilience (TPR) • cyber coordination group for insurers (FCA)
Using a broader range of regulatory interventions to drive value for money (VFM)	Joint TPR and FCA	• further development of common principles and standards for VFM, beyond TPR's DC code and guidance (FCA and TPR)* • holding schemes and providers to account for delivery of those standards (FCA and TPR)* • review of non-workplace pensions (FCA) • thematic work on VFM assessment (TPR) • introducing rules regarding the disclosure of costs and charges to the members of contract-based workplace pension schemes – bringing this into line with the rules already introduced by DWP for occupational schemes (FCA) • support for industry work on disclosing transaction charges (FCA and TPR)

*We have identified the further development of common principles and standards for VFM and the enforcement of those standards as one of the priorities for joint action within this strategy.

D. Consumer understanding and decision-making

Our objective is that **people access helpful information, guidance and advice that enables them to make well-informed decisions** about their pensions and retirement plans.

This requires that people should understand their pensions and what is in them, are engaged when they need to be and feel confident in making decisions about what to contribute, when to transfer and when to withdraw funds. It also depends on people having an appropriate level of trust in the pensions system and in their scheme or provider and having suitable options available to them.

Engagement and support are particularly needed at certain points in people's pension journeys. Examples include when they are getting started with saving, are changing jobs, have opportunities to move between different types of pension, when they are moving into retirement and during their retirement. To support these decisions, people should have access to appropriate and timely information, guidance and advice.

There is a lot of work already underway to achieve this objective, which is detailed in the table below. However, through our work on this strategy we have identified an opportunity for a more strategic view of developments, taking a step back and considering the impact of all the previous and ongoing work in this area.

So we will launch a **joint review of the consumer pensions journey** in 2019. This will examine how disclosures and information from pension schemes and providers combine with guidance and advice services to help consumers make well-informed decisions. As well as the content of communications, the review will consider their timing and method of delivery and will cover both trust- and contract-based pensions. This work has been identified as one of the new priorities for joint action within this strategy.

We have also identified the workstreams on pension scams and DB transfers – described in the table below – as priorities for joint action. However, most of the work in these areas is existing or planned, so we will be continuing our strong focus rather than starting new initiatives.

Workstream	Led by	Relevant initiatives
Cross-agency collaboration on work to improve consumers' understanding, engagement and trust in pensions	Joint FCA and TPR	• support to MAS / SFGB's work on financial capability and literacy (FCA and TPR) • support to DWP and the industry on pension dashboard implementation (FCA and TPR) • supporting technology-based innovation in pensions eg via a TechSprint focused on retirement decision-making (FCA and TPR)
Continued promotion of high quality and accessible information and guidance	Joint FCA and TPR	• implementing ROR proposals to improve the quality of information given before, at and during retirement, for example in wake-up packs and drawdown statements (FCA) • considering with SFGB whether and how to make Pension Wise guidance the 'default' option (FCA) • supporting industry work on simpler annual pension statements (FCA and TPR)
Continued regulatory focus to promote the provision of sound and accessible advice	FCA	• post-implementation review of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR) • ongoing supervisory reviews • supporting innovation in advice services through the work of the FCA's Advice Unit • implementing proposals to introduce a Directory – a new public register of those working in financial services
A specific focus on improving member / consumer outcomes from DB transfers	Joint FCA and TPR	• recent and continuing work on DB transfer advice and ongoing reviews of advice suitability (FCA) • review of guidance for trustees on transfers (TPR) • review of the information and support given to members (TPR) • information-sharing template for IFAs and schemes to use (TPR and FCA) • joint protocol for regulatory oversight and communications during significant DB events (TPR and FCA)

Strengthened multi-agency collaboration on combatting pension scams	Joint FCA and TPR	• continuing support to Project Bloom – the multi-agency collaborative group on pension scams. The Bloom Strategic Action plan includes:
		  • consumer awareness – including our new joint FCA/TPR ScamSmart campaign launched in August 2018
		  • intelligence-sharing
		  • collaborative regulatory and enforcement activity
		  • industry-led interventions

Section 4:

Improving how we work together and with others

In this section, we summarise our respective remits and approaches. We also set out how we intend to work together and with others to deliver this strategy's objectives.

Our regulatory remits

People save for their retirement in many different ways and the FCA and TPR regulate different parts of the pensions and retirement income sector. The FCA's and TPR's remits are both set by Parliament. Figure 4 shows how these roles relate.

The FCA's remit is set by the Financial Services and Markets Act 2000 (FSMA) and it is accountable to HM Treasury and to Parliament. The FCA is responsible for regulating the areas where individuals access personal (contract-based) pensions, either directly or in the workplace. The FCA also has significant regulatory responsibilities for firms that provide supporting products and services for pensions, such as advice and asset management.

TPR is accountable to DWP and is responsible for regulating employers' AE duties and the areas where individuals access occupational (trust-based as well as statute-based public service) pensions via their employers. While DWP sets the rules in TPR's area of operation, TPR supplements these rules with codes of practice and guidance.

Our respective approaches

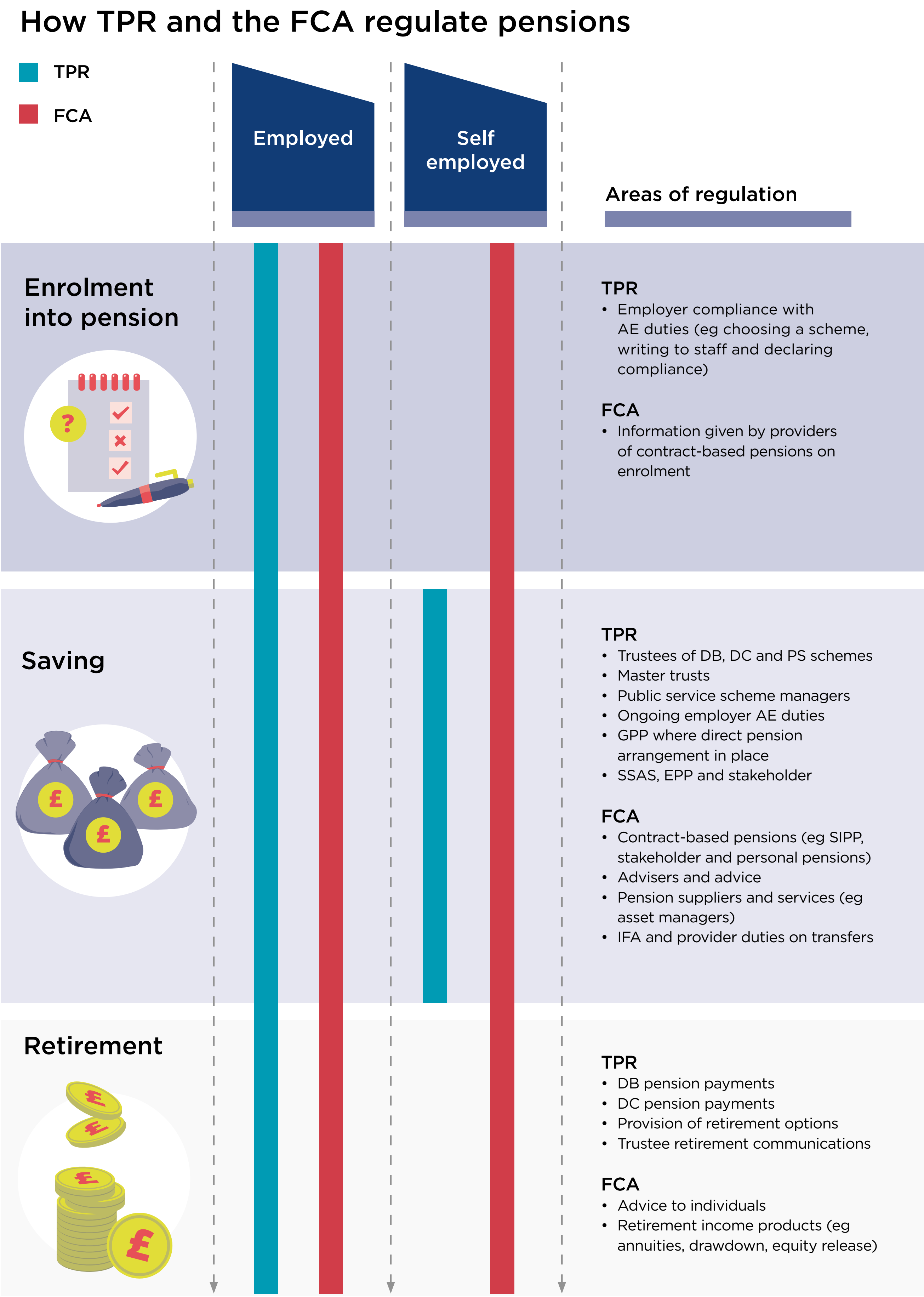
TPR's evolving regulatory approach and framework: As the pensions environment has evolved, TPR's statutory objectives have increased and it has been given new powers and responsibilities. These include responsibility for AE, public service scheme governance and administration and master trust authorisation.

Since 2017, TPR has been transforming the way it regulates through the TPR Future programme. This is delivering a new and sustainable approach, focused on being clearer, quicker and tougher, using a wider set of proactive approaches and interventions and engaging directly with a larger number of schemes.

FCA Mission and approach: In 2017 the FCA set out its Mission – a framework for the way it will make regulatory judgments to serve the public interest and meet its statutory objectives.

The FCA's 'Approach to' publications detail how it will deliver specific regulatory functions. These cover authorising, supervising and enforcing against firms and individuals – as well as how the FCA interprets its competition duties and considers the needs of consumers.

Figure 4: Our regulatory remits



We recognise the value of collaboration and believe that the work of both organisations is improved as a result.

Working together

In response to our CFI, stakeholders identified areas where they believe we are already working together effectively, for example around master trusts. We recognise the value of collaboration and believe that the work of both organisations is improved as a result.

A few stakeholders suggested that a single regulator would eliminate some of the issues they identified about unclear or overlapping remits. The regulatory arrangements are a matter for government and are determined by relevant legislation. The two regulators have distinct responsibilities which do not overlap. This strategy recognises the benefits of setting out how we work together.

Here we set out the ways of working we have identified to enable even more effective collaboration:

- joint assessment of risks and harms
- joined-up working on cross-sector initiatives
- communications around joint work

Joint assessment of risk and harms: A sound understanding of the risks in the pensions landscape is key to our long-term success. So we will extend our existing joined-up approach in this area. This will support:

- a shared view of risks and the potential harms they cause and relevant sharing of specific intelligence and information on regulatory risks
- strengthening collaboration on joint risks to manage them effectively
- collaborating on relevant analysis to tackle emerging risks and to support innovation

Joined-up working on cross-sector initiatives*:* We will be clear about the outcomes we seek and how we will work together on cross-sector issues. We have already seen that coordinated working can reduce the burden on those we regulate. Our focus will be on improving this coordination and messaging. We will do this by:

- further sharing relevant information, ensuring each regulator has a clear understanding of each other's policy intentions and views on the landscape
- issuing a joint consultation, review or impact assessment where there is a wider impact on the pensions sector
- where possible, aligning or reconciling policy positions and providing joint guidance when dealing with similar risks and issues
- carrying out joint engagement with external stakeholders

Communications around joint work: Stakeholders have told us that they would like to hear more about the work we carry out together and our priorities. We will do this by:

- ensuring we clearly define our priorities and focus
- increasing the transparency of joint initiatives and how we work
- setting out areas of cooperation on sector-wide initiatives

This strategy is the first step towards improving the way we communicate our joint work.

The combined effect of these changes will represent a step change in our relationship and will enable both regulators to have a greater impact. Implementing this stronger relationship is one of the priority areas for joint action within this strategy.

Working with others

We are not alone in striving to improve people's financial lives in retirement. Government departments, particularly DWP and HM Treasury, are significant contributors given their respective responsibilities for pensions and financial services. There are also important roles played by information and guidance bodies, ombudsmen, the Pension Protection Fund (PPF), the Financial Services Compensation Scheme (FSCS) and the Prudential Regulation Authority (PRA), as well as the market participants themselves, trade associations and professional bodies and consumer groups. It is through our collective efforts that we will see meaningful improvement.

There are areas where it is more appropriate for others to lead or take action. An example is public policy on the adequacy of saving by individuals, for which DWP has responsibility.

We have identified three key areas where we intend to work more with others:

- informing the public debate when we have useful evidence to share – for example from our data and/or research, or insights from our supervision and enforcement work
- assessing our regulatory remits and, where we see gaps in our responsibilities, flagging them with the relevant organisation for consideration – as FCA did recently with its market reference to the CMA on investment consultancy services
- providing relevant support to others, including through the coordination of cross-sector initiatives – as we do, for example, on pension scams

The combined effect of these changes will represent a step change in our relationship.

Section 5:

The way forward

This section describes how we will measure progress, how and when we will review the strategy and how others need to contribute.

Measuring progress and outcomes

We will use a range of quantitative data, as well as our more qualitative judgements, to assess whether these workstreams and initiatives are having the intended impact in reducing consumer harms and achieving our objectives. The table below highlights some examples of these indicators – it is not exhaustive and may evolve over time as new and better data sources become available.

We have not set hard targets or timelines for these metrics. The sector is complex and many factors that contribute to the overarching harm are outside the regulators' control. However, we would expect to see positive progress across these metrics – for example in reducing levels of scams and improving quality of transfer advice. If we do not, this will be a trigger to review the strategy.

In addition to these strategic metrics, we will set more detailed and specific success criteria for individual initiatives – including the priority initiatives given in this strategy. We will evaluate the impact of these initiatives in line with our usual approaches to evaluation – for example as explained in the FCA's Evaluating our work.

Reviewing the strategy

Over time, the strategy will need to evolve. Some drivers of harm will fade away, in part due to the actions that we and others are taking. Other challenges will arise – perhaps from some of the longer-term risks we have highlighted earlier in this document.

We will undertake a comprehensive review of the strategy and the associated action plan in three years' time. This review will consider the available evidence, including quantitative metrics such as those described below, as well as insight from our supervision, oversight and enforcement activities. We will use this to assess the progress that has been made and identify where further action is

Area of focus	Relevant metrics
Access and participation	• AE compliance data • opt-out rates • levels of voluntary contributions • participation rates (ie what proportion of people are contributing to pensions)
Funding and investments	• DB scheme deficits data • evidence from our supervision and case-work
Governance and administration	• TPR's DC survey • evidence from our supervision and case-work • complaints data • DWP's aggregate data on pension scheme charges
Consumer understanding and decision-making	• data on how well people understand, trust and are engaged in their pensions, for example from the FCA's Financial Lives research • take-up rates for guidance and advice • evidence from suitability reviews on advice quality • level of complaints about advice • level of reported pension scams

needed. From this review, we may propose changes to the regulatory strategy and to the workstreams and initiatives linked to it.

Delivering results

The overarching harm we have identified – the prospect of people not having adequate income, or the income they expected, in retirement – is not something that financial regulation alone can alter. Prolonged low interest rates, relatively static wage growth and the impact of the gig economy, for example, are factors we cannot influence.

Moreover, other organisations are better placed to lead in addressing some of the drivers of the overarching harm. For example, a new organisation, the SFGB, is being established as the successor to MAS, TPAS and Pension Wise and we look forward to supporting and working with it.

We also expect that government, particularly DWP and HM Treasury, will continue to have pensions policy high on its agenda. We will support the government's efforts through research, evidence and thought leadership on pensions-related topics, such as DWP's ongoing policy development for AE and work to facilitate the industry's delivery of a pensions dashboard.

Delivering this strategy will require the pensions industry – in the form of schemes, providers, trustees, advisers and those delivering services such as investment management and outsourced administration – to take note of our objectives and support us in achieving them. We are keen for the industry to use new technology to help solve these problems and will continue to facilitate this – for example via FCA Innovate including the Regulatory Sandbox and our joint sponsorship of TechSprints on pensions-related topics.

It is through co-ordinated action by everyone involved in the pensions and retirement income sector that we will deliver our strategy and achieve the best possible outcomes for pension savers.

Delivering this strategy will require the pensions industry to take note of our objectives and support us in achieving them.

Glossary

Abbreviations in this document

AE	Automatic Enrolment
AMMS	Asset Management Market Study
CDC	Collective Defined Contribution
CFI	Call For Input
CMA	Competition & Markets Authority
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
EPP	Executive Pension Plan
ESG	Environmental, Social and Governance
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
GPP	Group Personal Pension
ICO	Information Commissioner's Office
IFA	Independent Financial Adviser
IGC	Independent Governance Committee
MAS	Money Advice Service
ONS	Office for National Statistics
PPF	Pension Protection Fund
PRA	Prudential Regulation Authority
PS	Public Service
RDR	Retail Distribution Review
ROR	Retirement Outcomes Review
SFGB	Single Financial Guidance Body
SIPP	Self-Invested Personal Pension
SM&CR	Senior Managers and Certification Regime
SSAS	Small Self-Administered Scheme
TPAS	The Pensions Advisory Service
TPR	The Pensions Regulator
TRIG	Transfer and Re-registration Industry Group
VFM	Value For Money

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