

## Chapter 19

# Pensions supplementary provisions

## 19.7 Retirement risk warnings

### Definitions

19.7.1

R

In this section:

- (1) [deleted]
- (2) "pension decumulation product" is a product used to access pension savings and includes:
  - (a) a facility to enable a *retail client* to make an *uncrystallised funds pension lump sum* payment;
  - (b) an option to take a *small lump sum payment*;
  - (c) a *drawdown pension*; and
  - (d) a *pension annuity*;
- (3) "pension savings" is the proceeds of the *client's personal pension scheme, stakeholder pension scheme, or occupational pension scheme*;
- (4) "retirement risk warnings" are the warnings required to be given to a *retail client* at step 3 of the process specified in this section;
- (5) "risk factors" are the attributes, characteristics, external factors or other variables that increase the risk associated with a *retail client's* decision to access their pension savings using a pension decumulation product;
- (6) "signpost" is the written or oral statement encouraging a *retail client* to use *pensions guidance* or to take regulated advice to understand their options at retirement which is at step 1 of the process specified in this section.

### Application

19.7.2

R

This section applies to a *firm* communicating with a *retail client* in relation to accessing their pension savings using a pension decumulation product.

19.7.3

R

This section does not apply:

- (1) to a *firm* giving regulated advice to a *retail client* on options to access their pension savings;

- (2) if the *firm* has already provided the retirement risk warnings to the *retail client* in relation to their decision to access their pension savings and the *firm* has reasonable grounds to believe that the retirement risk warnings are still appropriate for the *client*.

### Purpose

- 19.7.4 **G** (1) The purpose of this section is to ensure that a *firm*, which is communicating with a *retail client* about a pension decumulation product, gives appropriate retirement risk warnings at the point when the *retail client* has decided how to access their pension savings.
- (2) If the *retail client* has not yet decided what to do, the *firm* should consider whether it is required to signpost the *pensions guidance* under ■ COBS 19.4.16R (signposting pensions guidance) and whether it may be appropriate to provide information about the risks associated with the *client's* options to access their pension savings generally.
- 19.7.5 **G** This section amplifies *Principles 6 and 7*, but does not exhaust or restrict what they require. A *firm* will, in any event, need to ensure that its sales processes are consistent with the *Principles* and other *rules*.
- 19.7.6 **G** An illustration of the steps a *firm* is required to take is set out in ■ COBS 19 Annex 1G.
- Trigger: when does a firm have to follow the steps?**
- 19.7.7 **R** A *firm* must follow the steps specified in this section at the point when the *retail client* has decided (in principle) to take one of the following actions (and before the action is concluded):
- (1) buy a pension decumulation product; or
  - (2) vary their *personal pension scheme, stakeholder pension scheme, FSAVC, retirement annuity contract or pension buy-out contract* to enable the *client* to:
    - (a) access pension savings using a *drawdown pension*; or
    - (b) elect to make one-off, regular or ad-hoc *uncrystallised funds pension lump sum* payments; or
  - (3) receive a one-off, regular or ad-hoc *uncrystallised funds pension lump sum* payment; or
  - (4) access their pension savings using a *drawdown pension*; or
  - (5) withdraw the funds in full from their pension savings, reducing the value of their rights to zero.

**Step 1: determine whether the client has received guidance or regulated advice**

- 19.7.8** **R** (1) The first step is to ask the *retail client* whether they have received *pensions guidance* or regulated advice:
- (a) if the *client* says that they have, the *firm* must proceed to step 2; or
  - (b) if the *client* says that they have not or is unsure, the *firm* must explain that the decision to access pension savings is an important one and encourage the *retail client* to use *pensions guidance* or to take regulated advice to understand their options at retirement.
- (2) If, after giving the explanation in **■ COBS 19.7.8R (1)(b)**, the *retail client* does not want to access *pensions guidance* or take regulated advice, the *firm* must proceed to step 2.

**Step 2: identify risk factors**

- 19.7.9** **R** Based on how the *retail client* wants to access their pension savings, at step 2 the *firm* must ask the *client* questions to identify whether any risk factors are present, except where **■ COBS 19.7.9AR** applies.

- 19.7.9A** **R** If the value of the *retail client's* pension savings is £10,000 or less and there are no *safeguarded benefits*, the *firm*:

- (1) is not required to ask questions to identify whether any risk factors are present; and
- (2) must prepare appropriate retirement risk warnings based on the risk factors relevant to each pension decumulation product it offers to enable *retail clients* to access their pension savings.

- 19.7.9B** **R** A firm may ask the *client* the questions required by **■ COBS 19.7.9R** before the *client* has decided (in principle) to take one of the actions specified in **■ COBS 19.7.7R** to access their pension savings.

- 19.7.9C** **R** If, to complete step 2, a *firm* relies on information gathered prior to the *client's* decision to access their pension savings, the *firm* must be satisfied that this information is relevant, accurate and up-to-date before giving the risk warnings at step 3.

- 19.7.10** **R** A *firm* must prepare the questions required by **■ COBS 19.7.9R** before taking the steps for the first time, and must keep the questions up to date.

- 19.7.11** **G** To prepare for step 2, the *firm* should:

- (1) identify the main risk factors relevant to each pension decumulation product it offers to enable *retail clients* to access their pension savings; and

- (2) prepare questions to enable it to identify the presence of those risk factors for different *retail clients*.

19.7.12 **G** Examples of the sorts of risk factors which relate to pension decumulation products are:

- (1) the *client's* state of health;
- (2) loss of any guarantees;
- (3) whether the *client* has a partner or dependants;
- (4) inflation;
- (5) whether the *client* has shopped around;
- (6) sustainability of income in retirement;
- (7) tax implications;
- (8) charges (if a *client* intends to invest their pension savings);
- (9) impact on means-tested benefits;
- (10) debt; and
- (11) investment scams.

### Step 3: provide appropriate retirement risk warnings

19.7.13 **R** At step 3:

- (1) if the value of the *retail client's* pension savings is £10,000 or less and there are no *safeguarded benefits*, based on how the *retail client* wants to access their pension savings, a *firm* must give the *client* the appropriate retirement risk warnings prepared under **COBS 19.7.9AR(2)**; and
- (2) in all other cases, a *firm* must give the *retail client* appropriate retirement risk warnings in response to the *client's* answers to the *firm's* questions.

19.7.14 **R** A *firm* must prepare the retirement risk warnings required by **COBS 19.7.13 R** in good time before taking the steps for the first time, and must keep them up to date.

19.7.15 **G** If after considering the *retail client's* answers it is unclear whether a risk factor is present, a *firm* should give the *client* the appropriate retirement risk warning.

### Communicating the signpost and retirement risk warning

19.7.16 **R** When communicating the signpost and retirement risk warnings, the *firm* must do so clearly and prominently.

**19.7.17** **R** Whatever the means of communication, the *firm* must ensure that the *retail client* cannot progress to the next stage of the sale unless the relevant signpost or retirement risk warning has been communicated to the *client*.

**19.7.18** **G** For an internet sale, a *firm* should display the required information on a screen which the *retail client* must access and acknowledge as part of the sales process. It would not be sufficient for the information to be accessible only by giving the *client* the option to click on a link or download a document.

### Record keeping

---

**19.7.19** **R** *Firms* must record whether the *retail client* has received:

- (1) the retirement risk warnings at step 3 of the process specified in this section;
- (2) regulated advice; and
- (3) pensions guidance.