

Pension unlocking

Introduction

'Pension unlocking' allows someone over the age of 50 to release their pension benefits from an occupational or personal pension before they have reached their retirement age. The benefits are transferred to a new pension arrangement from which they can release their money. In 2003 we published a '[Dear CEO letter](#)' to remind firms of their regulatory obligations in relation to the 'pension unlocking' market.

Here, we revisit the content of that 2003 letter and remind firms operating in this market of the areas that they should focus on. Our requirements in respect of financial promotions for pension unlocking are set out in the FSA Handbook in Chapter 4 of COBS.

Providing sufficient information

Our previous research has shown that consumers have difficulty understanding how pension unlocking works or what the longer-term risks will be. Our rules require that information on pension unlocking which is provided to retail clients is sufficient for, and presented in a way that is likely to be understood by, the average member of the group to whom it is directed, or by whom it is likely to be received.¹

It is crucial that consumers recognise they will have a reduced pension in retirement which may adversely affect their future standard of living. Therefore, it is especially important that promotions present this information in a clear and simple manner so that consumers understand the proposition and the risks that they are taking on.

The need for balance within financial promotions

Our rules also require that information provided to retail clients (including press advertisements and websites) must be accurate and in particular must not emphasise any potential benefits of relevant business or a relevant

We publish industry updates on issues or trends that we identify through our routine monitoring of financial promotions compliance. The aim of these is to capture emerging concerns and, where necessary, to clarify our expectations of firms.

Please note this update is meant to help you understand the rules better, but is no substitute for referring to the rules themselves. Firms should always ensure that the promotions they produce comply with all the relevant rules and guidance.

investment without also giving a fair and prominent indication of any relevant risks.

The key risk with pension unlocking is that the consumer's pension will be reduced over the longer term and may be insufficient to meet their needs in retirement. Other risks could include losing out on a 'guaranteed annuity rate' or 'terminal bonus', or having the fund reduced due to a market value adjustment or penalty for early termination. We expect firms to take due account of:

- The need to mention the relevant risks, which will vary with age, and the need to balance the consumer's immediate need for a cash lump-sum against the need for pension income either now or in the future.
- The importance of pension income, noting that pension unlocking is only likely to be suitable for a limited range of consumers and circumstances. So promotions should not be presented with any specific objective in mind or in a way that actively promotes pension unlocking as a source of funds for short-term wants rather than needs; for example, purchasing a holiday or new car without balancing the advert by setting out the risks.²
- The need to make clear to the target audience that pension unlocking is unlikely to be suitable for most consumers and that this should not be seen as an easy option for raising cash funds.

¹ COBS 4.5.2R(3)

² COBS 4.5.2R(2)

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Information must not be misleading

Our rules require that financial promotions are fair, clear and not misleading.³ We have identified some promotions which may breach this requirement because they overstate the risks of not taking action, creating a potentially misleading comparison between the different options available to consumers. In particular:

- promotions should not infer that there may be no future growth opportunities within a current pension investment, thereby implying that the process of 'unlocking' is one of releasing stagnant cash; and
- firms should be careful to ensure that any mention in their promotions of the new minimum age of 55 for accessing pension benefits, which comes into force on 6 April 2010, is fair and balanced.

Promotions must not disguise, diminish or obscure

Our rules for communicating with retail clients require firms to ensure that information does not disguise,

diminish or obscure important items, statements or warnings.⁴ In order to satisfy this requirement firms should consider:

- the overall tone of the promotion, which should not trivialise or undermine the risk of pension unlocking; and
- the prominent placement of risk warnings and other key messages in a way that does not reduce their impact. Our research has suggested that around half of consumers do not read 'small print' so there is real consumer detriment if key messages are not placed within the main body of the advertisement.
- In television promotions, we consider that messages appearing as superimposed text in front of pictures are even less likely to be read than 'small print' in press advertisements. This is because consumers are distracted by the action above the text.
- Firms should consider the need to prioritise risks to reflect the fact that some – like the reduction of income in retirement – are probable rather than merely possible.

Conclusions

We will continue to take supervisory action and, where appropriate, enforcement action against individual firms where we find policies or practices which pose particular risk to consumers.

We will continue to monitor the activities of firms in the pension unlocking market and we expect them to take full account of their regulatory and other duties in relation to advertisements placed in all types of media.

Further information about our financial promotions expectations can be found on our website at www.fsa.gov.uk/Pages/Doing/Regulated/Promo/index.shtml

³ COBS 4.2.1R

⁴ COBS 4.5.2R(4)