ADVISER GUIDE

Investment pathways

Investment pathways are part of a new process introduced by the FCA to help non-advised drawdown customers make better investment decisions. This process will become effective from 1 February 2021.

Investment pathway funds are investment solutions offered by the provider to match a particular objective in drawdown.

The provider has to take a non-advised customer through a series of steps when they either:

- take all or part of their pension fund as drawdown; or
- transfer from one drawdown plan to another.

This includes asking the customer if they want to invest in investment pathway funds. If they do, then they have to first pick an objective in drawdown from a list of four, and are then offered a corresponding fund solution to match that option.

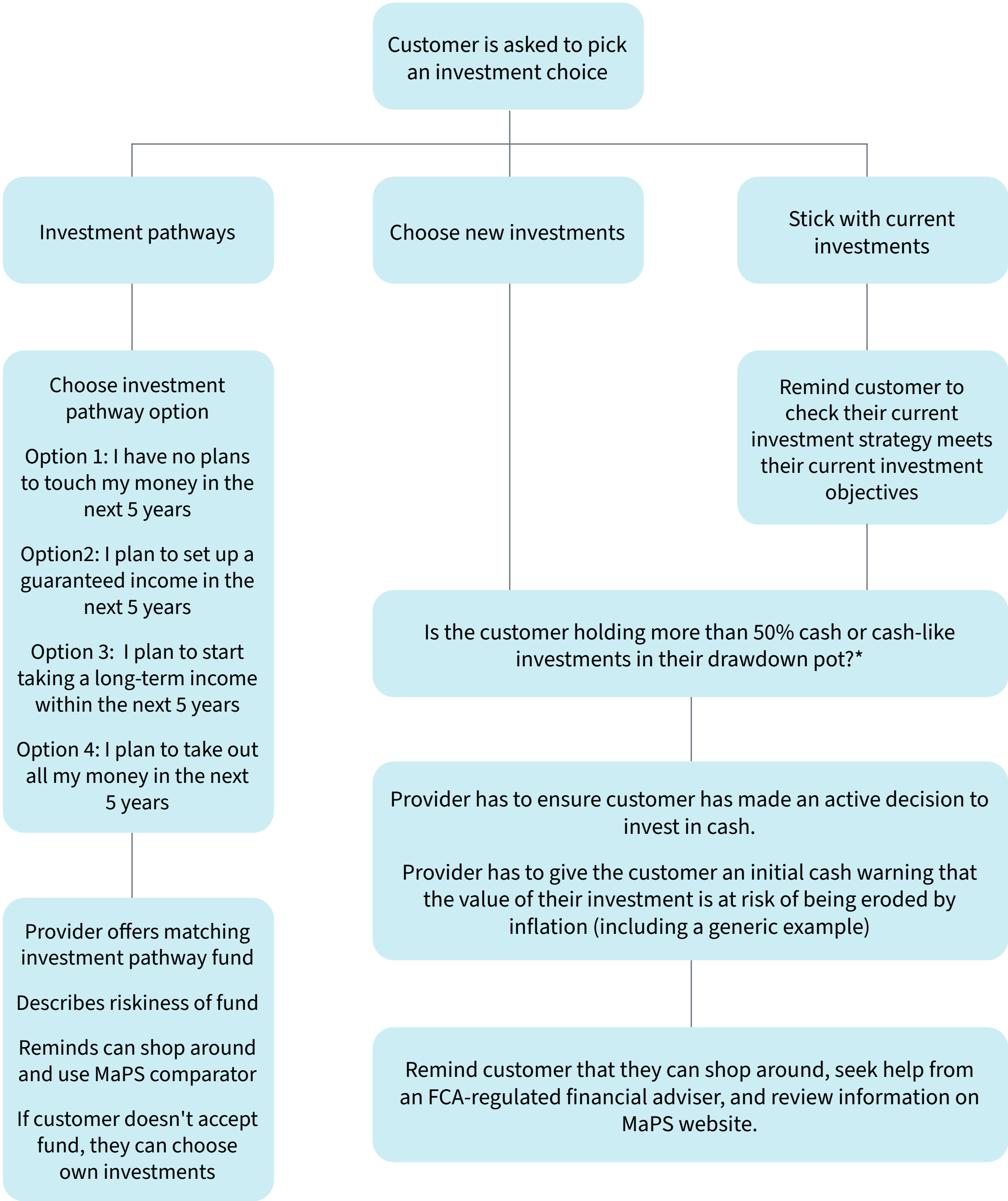
- Option 1: I have no plans to touch my money in the next five years.
- Option2: I plan to set up a guaranteed income in the next five years.
- Option 3: I plan to start taking a long-term income within the next five years.
- Option 4: I plan to take out all my money in the next five years.

Although aimed at non-advised customers, the investment pathways process does affect financial advisers and planners and will mean they have to change some of their existing processes.

The information contained in this guide is based on our understanding of current law, practice and taxation which may be subject to change

Investment pathways process

We have described the investment pathways process below.



*Cash-like investments include cash or near cash, units in a regulated money market fund, or units in a fund authorised as a money market fund.

This requirement doesn't apply if a discretionary investment manager or financial adviser has permission to execute investment decision for more than 50% of the customer's drawdown fund.

Advisers and investment pathways

The FCA has developed investment pathways to help non-advised drawdown customers make better investment decisions. But it does mean financial advisers and planners making changes to their drawdown and investment processes as well.

There are two key areas to be aware of.

Definition of 'non-advised'

Only non-advised customers have to be taken through the investment pathways process.

The FCA investment pathways rules define a customer as non-advised if the provider has not determined that the customer has received, in the last 12 months, a personal recommendation on taking drawdown, or the transfer from one drawdown plan to another.

This means the customer had to receive advice on that specific action. When determining whether the customer has received a personal recommendation, evidence that the adviser is receiving a fee is not sufficient.

This means that if the adviser has set an investment strategy for a customer, but not given them advice on that particular transaction, then the customer will have to be taken through the investment pathways process.

Example

Gary has a SIPP worth £200,000. On the advice of his adviser, he designates £100,000 to drawdown and takes £25,000 tax-free cash.

After 18 months, Gary decides he needs an additional £2,500 tax-free cash, and so designates a further £10,000 to drawdown. He doesn't receive a personal recommendation on this later action.

In this example, Gary has to be taken through the investment pathway process.

Giving investment advice

The second area to be aware of arises when giving investment advice.

The new FCA rules say that, when an adviser firm is making a personal recommendation to a customer about the investment of the customer's capped drawdown or flexi-access drawdown funds, then its suitability assessment should also include consideration of pathway investments.

Financial advisers and planners need to change their processes to reflect this rule.

As part of considering investment pathways, adviser and planners may want to consider what investment pathway option their client would choose. They may then want to consider what investment pathway funds are being offered to meet this objective.

The Money and Pensions Service (MaPS) will launch a comparator that gives details of a few providers' investment pathway funds, including asset allocation of the funds and expected charges for the first year of drawdown.

When comparing investment pathways funds, financial advisers and planners may want to take account of the time frame of the investment, the risk profile of the client, and the recommended investment strategy, including the diversification approach.

These aren't big changes to advisers' current processes, but they are necessary ones to meet the FCA's new investment pathways rules.

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