**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 was effective as of 1st February 2024.

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

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

* Take all of 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 they 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.
* Option 2: 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 will have to change some of their existing processes*.

**Investment pathways process**

We have described the investment pathways process below.

Customer is asked to pick an investment choice

Stick with current investments

Choose new investments

Investment pathways

Choose investment pathway option

Option1: I have no plans to touch my money in the next 5 years

Option 2: I plan to set up a guaranteed income in the next 5 years

Option 3: I plan to start taking a long-term income within the next 5 years

Option 4: I plan to take out all my money in the next 5 years

Remind customer to check their current investment strategy meets their current investment objectives

Is the customer holding more than 50% cash or cash-like investments in their drawdown pot?

Provider has to ensure customer has made an active decision to invest in cash.

Provider has to give the customer an initial cash warning that the value of their investment is at risk of being eroded by inflation (including a generic example)

Provider offers matching investment pathway fund

Describes riskiness of fund

Reminds can shop around and use MaPS comparator

If customer doesn’t accept fund, they can choose own investments

Remind customer that they can shop around, seek help from an FCA-regulated financial adviser, and review information on MaPS website.

**Advisers and investment pathways**

There are two key areas to be aware of.

*Definition of ‘non-advised’*

Only non-advised customers need 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 has 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 from a customer, but not given them advice on that particular transaction, then the customer will have to be taken through the investment pathways process*.

*Giving Investment advice*

The new FCA rules say that, when a 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 clients 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)**

MaPS will launch a comparator that gives details of a few providers’ investment pathway funds, including asset allocation of the funds and expected changes for the first year of drawdown.

**Dealing with the investment pathway issue**

* Notify all clients potentially affected (including those in drawdown annual reviews) of the possibility of getting an investment pathway notification from a provider;
* Consider the potentially disruptive impact of applying an investment pathway strategy to a cohesive multi-wrapper retirement strategy (possibly within an existing PROD strategy);
* Amend drawdown (new business and annual review) suitability letters to consider investment pathways.

**Information sources:**

FCA – PS19/21

AJ Bell – AJBIC Investment Pathways Adviser Guide

PruAdviser – Investment Pathways