



ASSOCIATION OF CONSULTING ACTUARIES

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cp19-25@fca.org.uk

Sandra Graham and David Berenbaum
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Dear Sandra and David

Consultation Paper 19/15

Pension transfer advice: contingent charging and other proposed changes

I am writing on behalf of the Association of Consulting Actuaries in response to the above-named consultation issued by the Financial Conduct Authority.

Looking at the big picture, there is a balance to be struck - the advice regime should not be so strict that transfers that are likely to be in the best interests of individuals are in effect stymied by regulation but should minimise transfers that are not in the best interest of members.

Our comments on specific questions raised in the consultation are set out in the Appendix. We have only included a small number of questions, on which we had comments.

We have not commented on the proposed details of the contingent charging arrangements – our high level comments on contingent charging were contained in our response to CP18/7.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In that event, please contact me on 01372 733763 or at peter.williams@aon.com.

Yours sincerely

Peter Williams

Chair, Pension Schemes Committee

On behalf of the Association of Consulting Actuaries Limited

Pension transfer advice: contingent charging and other proposed changes

Consultation questions

Question 9: What are your views on the potential for 'scheme pays', changes to the pension advice allowance and partial transfers to improve the quality of advice or address conflicts of interest adequately, or both?

Anything that enables consumers to pay for appropriate professional advice and meet their objectives in a suitable manner is likely to be welcomed by advisers and individuals. However, the impact on schemes should also be considered.

The 'scheme pays' option is likely to impose significant additional costs on DB occupational pension schemes. It is much more complex than the current, but not widely used, facility for DC schemes to permit their members to cash in up to £500 of their savings pot to finance general pre-retirement advice. If such an option were to be made mandatory for schemes, DB trustees would need to have the ability to reduce a member's prospective benefits to meet the additional administrative costs of using scheme pays – in addition to the adjustment to meet the advice cost – irrespective of whether the transfer takes place. There would also need to be rules governing how such reductions could be made, covering the benefits that could be reduced and how the reduction calculation would work (presumably through an actuarial equivalence approach).

While of the three options detailed we see greatest benefit to individuals in being able to facilitate a partial transfer, resulting in a guaranteed level of income in retirement via the retained DB pension plus access to pension flexibilities via the transferred portion, this would impose significant additional costs and issues for trustees, particularly of smaller occupational pension schemes. We do not believe this should be mandatory without much more research into the ramification. In a standard transfer value, the costs to the scheme of completing the transfer are offset by the reduced costs from the removal of future pension payment administration for the transferring individual. Under a partial transfer, the scheme would need to complete a (more complicated) transfer process and also continue to administer future pension payments (which will also increase in complexity, involving a suitable adjustment to reflect the partial payment). It would seem difficult to justify imposing such additional costs on occupational pension schemes on a mandatory basis. If such an approach was made mandatory, trustees should be able to make an adjustment to benefits to offset their additional costs (either in comparison with the estimated costs relating to a transfer of all the member's benefits or to ongoing administration if no transfer took place).

Question 10: Given the timeframes that apply to guaranteed transfer values, what are your views on the need to provide guidance to members considering a pension transfer? Should guidance be mandatory and, if so, who should deliver it?

We think it would be helpful for trustees and employers to get more directive guidance from TPR and MAPS on how they can support members. In addition, centrally produced guidance could for example include generic information for members and information to reference – perhaps on-line information/leaflets on issues for individuals to consider, for transfers in general and during

particular scheme events (such as a restructuring). Trustees could then refer members to the central guidance. We do not think it would otherwise be appropriate for trustees to provide guidance beyond the scheme benefits that would be given up.

A further issue is the three-month period for which transfer values are guaranteed, as this creates a specific window for the individual to receive advice. Many individuals' first action is to contact their DB scheme to obtain a transfer value quotation, before starting to consider an appropriate advisor. The result is that, in these cases, considerably less than three months remain for advice to be delivered and actioned. Central guidance could encourage members to consider an appropriate adviser to use before requesting the transfer value quotation.

Question 13: Do you agree that requiring firms to demonstrate that an alternative scheme is more suitable than a WPS is the most effective way to reduce the numbers of consumers being transferred into schemes that do not meet their needs and limit unnecessary charges paid? If not, how would you suggest we address this issue more effectively?

We agree that requiring a comparison with a workplace pension scheme as part of the advice process should help to reduce the number of inappropriate transfers.

Question 14: Do you agree with our proposals for requiring the disclosure of charges in engagement letters? If not, please indicate what alternatives should be considered.

Yes.

Question 15: Do you agree with our proposals to introduce a one-page summary at the front of a suitability report? If not, please indicate what alternatives should be considered to improve disclosures to consumers.

Yes.

Question 16: Do you agree with our proposal to require that suitability reports are always provided before a transaction is undertaken?

Yes.

Question 18: Do you agree with our proposals to introduce CPD requirements for PTSs? If not, what other approaches could be used to help PTSs maintain knowledge?

Yes.

Question 22: Do you agree with the proposed changes to the pension transfer definition?

Yes.

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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