ASSOCIATION OF CONSULTING ACTUARIES

Association of Consulting Actuaries Limited · First Floor · Regis House · 45 King William Street · London · EC4R 9AN
Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk

25 October 2016

Assets, Savings and Consumers
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Sirs

Introducing a Pension Advice Allowance

I am writing on behalf of the Association of Consulting Actuaries (ACA) in response to the Treasury consultation dated 30 August 2016. We welcome the consultation and are glad to have the opportunity to contribute. I attach an Appendix setting out our responses to the specific questions raised.

We hope that you will find our submission of assistance and would be happy to discuss further if that is helpful.

Yours faithfully

Hugh Nolan

Hugh Nolan
Chairman, Defined Contribution Committee
On behalf of the Association of Consulting Actuaries Limited

Sent by e-mail to: pensionsadviceallowanceconsultation@hmtreasury.gsi.gov.uk

Enc

APPENDIX

Introducing a Pension Advice Allowance

Question 1: How widely are the existing provisions for facilitated adviser charging used? The government welcomes evidence from pension providers and advisers on the types of products and transactions which use adviser charging.

The existing provisions are used relatively rarely in occupational pension schemes in our experience, with the notable exception of annuity broking at retirement.

Question 2: The government welcomes views on the proposed design of the Pensions Advice Allowance.

We believe it is entirely appropriate to extend the scope for an authorised payment to cover holistic retirement planning rather than limiting it to the specific product. We welcome the suggestion to build on the existing adviser charging system, which we agree will limit the additional burden on firms. We also strongly agree that the funds should be paid direct to the financial advisor.

Question 3: The government welcomes views on this option. Are there any other ways to limit the number of times people can use the allowance?

We recognise the likelihood that some people might benefit disproportionately from the tax advantages available if the allowance can be used multiple times without limitation. However, we do not think that many people would want to incur these fees regularly and so do not feel that a limit needs to be put in place for this reason.

We are also mindful of the possibility of fraud but would not want this to be overestimated. We believe that any suspected fraud should be monitored and addressed separately, rather than running the risk of discouraging consumers from seeking advice at an appropriate time. Any arbitrary limit might well lead to people saving their allowance in case of a higher level of future need arising.

It would be equally possible to restrict the excessive use of multiple allowances by requiring a minimum period of say 12 months (or 3 years or any such other period as is deemed appropriate) between instances. We would welcome the flexibility for people to seek further advice following a change of circumstance, which could include defined life events such as a change in marital status, a new employment and so on. Allowing for such flexibility would minimise the chance of consumers not taking advice if there was a prolonged period (or other limit) before a further advice allowance could otherwise be triggered.

On balance, our preference would be for a simple regime that allowed for an allowance of £500 some time before retirement for advance planning and a second, higher allowance of £800 at the time of retirement.

There is a practical difficulty in enforcing any limited regime, given that the allowance could be claimed from multiple schemes. We suggest that it would be appropriate to allow self-certification by claimants that they are eligible, with no penalty for any arrangement that proceeded on that basis.

Question 4: What age should the allowance be available from?

It is clearly desirable for advice on retirement planning to be available well before retirement and we believe it should be available from age 50 at the latest, to allow people to plan at least a few years ahead of drawing benefits. It might be appropriate to set an arbitrary limit at an earlier age, allowing time for consumers to build up some investments but still have time to affect their retirement outcome without the need for dramatic changes (even for those drawing benefits from age 55).

We also note that the current limit on opening a Lifetime ISA is age 40 so it might be appropriate to allow the pensions advice allowance to be available from age 39, retaining the possibility that an advisor could suggest setting up a Lifetime ISA to consumers accessing advice at that age as a means of boosting retirement saving. There might also be a psychological effect from having the allowance accessible at this age, when many people naturally look to the future and perhaps focus seriously on retirement planning for the first time as they approach 40.

Question 5: How could consumer awareness of the allowance be increased?

Consumer awareness could be increased through signposting on annual benefit statements, the new Pension Dashboard and through Pension Wise. There would be a natural incentive for financial advisers to advertise the facility and employers might also highlight it to their staff, as might newspapers to their readership.

Question 6: Are people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, impacted by the policy proposed?

We do not see any reason to expect any impact on people with protected characteristics.

Question 7: The government invites comment on the proposed scope of the Pensions Advice Allowance.

We agree that it is appropriate to limit the allowance to full regulated advice rather than including guidance services, for the reasons given in the consultation document.

We believe that schemes should be empowered but not required to offer access to the allowance. Defined Benefit (DB) schemes might choose not to participate, as noted, and occupational Defined Contribution (DC) arrangements might also decide against offering the facility.

The consultation indicates that the definition of a DC scheme proposed by the government for the purpose of this allowance would be subtly different from the precise definition of schemes where the flexibility of Freedom and Choice access applies (as it would only include arrangements providing other money purchase benefits and not cash balance or hybrid arrangements). This could create unnecessary confusion and lead to surprised and disappointed consumers who find that they are able to access their benefit flexibly as a result of the freedoms but not benefit from the allowance in seeking advice.

Question 8: The government welcomes evidence on the proportion of products or schemes, which currently offer facilitation of adviser charging.

We believe other organisations will be better placed to comment on this aspect.

Question 9: How could the government maximise access to the Pensions Advice Allowance?

The best way to maximise access would be to keep the process simple with minimum costs of compliance to encourage all eligible schemes to offer it. It would also help to allow all types of scheme to offer access to this facility, to make sure that consumers do not get confused about any eligibility limits.

Question 10: How much of the pension market would be likely to offer the Pensions Advice Allowance to their customers?

We believe that contract-based pensions, such as Group Personal Pensions (GPPs), and larger master trusts would be likely to offer this facility. However, we expect most DB schemes are unlikely to want to incur any extra costs and there are many relatively small trust-based DC schemes that would consider even modest costs disproportionate for the number of members expected to use the facility.

Question 11: How do providers reduce the client's benefits accordingly, if they offer to facilitate adviser charging on products with a guaranteed income?

We believe other organisations will be better placed to comment on this aspect.

Question 12: Are there any difficulties in offering facilitation of adviser charging for products with other types of guarantee?

Such advice might need to be much more sophisticated than for arrangements without guarantees and could therefore be significantly more expensive than £500. There is a risk that consumers might be given an unrealistic expectation of cost for this advice, potentially then taking oversimplified or inadequate advice in some circumstances to stay within an arbitrary price point. Conversely, people with complicated guarantees may well need advice more than other consumers and it therefore seems eminently sensible to allow the same tax advantages to them.

Question 13: The government welcomes views and evidence on any difficulties in offering the Pensions Advice Allowance presented by scheme rules or more generally in respect of members of occupational pension schemes.

Given the vagaries of the documentation governing occupational pension schemes, we suggest that trustees should be given an overriding unilateral power to offer the allowance. As noted above, we also believe that the modest scale of many occupational pension schemes means they are unlikely to be willing to incur additional costs of setting up new processes and so the take-up rate might be limited.

Question 14: The government welcomes views and evidence on any difficulties in offering the Pensions Advice Allowance for automated advice models.

We believe other organisations will be better placed to comment on this aspect.

Question 15: Are there any other products or schemes, for which it would be more difficult to offer the allowance? How could the government address these difficulties?

We believe other organisations will be better placed to comment on this aspect.

Question 16: Are there any other ways to mitigate the risk of fraud?

The risk of fraud will be dramatically reduced by the proposal to make payments direct to an authorised financial advisor, along with any limit on multiple uses. We don't see any particular need to mitigate the risk further but we note that there is a Code of Good Practice on Combatting Pension Scams which could be extended to cover this new area.

Question 17: Do you have any other information, which does not relate to any of the consultation questions above, which you feel would be beneficial to HM Treasury when designing and implementing the Pensions Advice Allowance?

We note that under the current framework it is possible for adviser fees paid at the point that DC benefits are crystallised to leave any associated pension commencement lump sum (PCLS) unaltered (provided the advice meets certain requirements). We further note that the government intends that "[i]ndividuals using the Pensions Advice Allowance would still be entitled to the same tax free lump sum as at present, when they ultimately come to take their pension benefits".

As the proposed new allowance could be paid from funds prior to benefits being crystallised and possibly on several different occasions, we consider that it is preferable that the calculation of any PCLS taken following payment(s) under the proposed allowance is as straightforward as possible for scheme administrators. If the allowance is not compulsory for trustees to offer then it is possible that administrative complexity might dissuade them from offering it.

Finally we would ask that, given the complexity of the current framework for the taxation of pensions and the need as acknowledged by the government for it to "consider carefully how to define the [proposed] authorised payment", the legislation implementing these proposals be published in draft for consultation.

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.

Disclaimer