ASSOCIATION OF CONSULTING ACTUARIES

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Private & Confidential
Early access to pension savings
Pensions & Pensioners Team, Room 2/S1
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Email to: earlyaccess@hmtreasury.gsi.gov.uk

Dear Sirs

Early access to pension savings

I am writing on behalf of the Association of Consulting Actuaries to respond to your consultation.

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 actuarial advice 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 defined benefit pension schemes.

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

With the move from generous defined benefit pension schemes to defined contribution arrangements that typically receive lower employer contributions, it is becoming ever more important that individual earners have incentives to save more for their retirement. Our view is that an arrangement that permits savers to have early access to part of their retirement savings in limited circumstances will be a valuable incentive.

The ACA would propose restricting lifetime withdrawals to something equivalent to the overall tax-free cash limits of 25% of funds, suitably adjusted for timing differences, and would confine the qualifying reasons for early access to a relatively short list. House purchase would be an obvious qualifying event, as might dealing with a mortgage (or rent) arrears. Other “life events” might qualify too - for example, payment of a child’s university fees - but the list should be relatively short and subject to some proportionate checks and balances. (In the event that this sort of approach is deemed to be too difficult to legislate for and/or monitor then a simpler compromise might be to permit access to the accrued but undrawn lump sum on, say, a 5-year basis).

In our view it makes little sense to dismiss the idea of early access on the basis of it either being available already (e.g. through ISAs) or because it is not possible to definitively prove that early access will increase pension saving. Few things are properly understood about pension saving, but the evidence suggests that even those in their early 20s understand – and are frankly entirely switched off by the thought – that pension saving means locking funds away for 30 years or more. If you cannot see beyond the end of your student loan repayments, or other expected cost obligations, are you seriously going to commit your limited funds to such a vehicle?

Another objection sometimes raised is that early access is likely to mean reduced savings to fall back on in retirement. In an over-simplistic model where the saver is committed to a definite amount of saving and only the timing of the access is varied this will normally be the case (because of real returns foregone on the early withdrawals). But this ignores the fact that those early withdrawals might reduce other lifetime costs by virtue of their being met earlier. It is not, therefore, obvious that one can conclude that in the aggregate a saver with the ability to early withdraw will be worse off in total when he, or she, retires.

At present retirees can take retirement tax-free cash without any constraints as to how it is used (or misused). Under a sensible early access model the use to which sums taken early could be put would be more “controlled” and, in that sense, it is possible that imprudent spending of tax-free cash (e.g. blowing the lot on that must-have world cruise) would be reduced rather than increased.

We are in favour of introducing the legal flexibility to permit early access to tax-free cash as it could provide some meaningful help with, we believe, limited effort or cost. However, we remain of the view that this is less important than other areas of flexibility in pensions legislation, such as an ability to offer risk-sharing pension schemes where financial risk is shared between employer and members.

On a couple of points of detail:

- The framework should be permissive, rather than compulsory. Pension providers and employers should be free to decide whether or not the pension arrangements that they offer include an early access provision.

- We think that it is widely recognized that an offer of membership of a defined benefit pension scheme is a valuable benefit, and so we see less of an argument that an early access feature will improve take-up of a defined benefit scheme. However, we see no objection to permitting defined benefit schemes to offer an early access feature if sponsoring employers and trustees choose to do so. An early access withdrawal might operate in a similar way to a pension sharing arrangement on divorce, where the member's benefit entitlement is reduced to reflect the amount withdrawn from the scheme and transferred to the former spouse's pension arrangement.

Finally, we have included responses to your queries about trivial commutation and small pension pots in the appendix.

If you have any queries about what we are suggesting please do not hesitate to contact me on 020 7082 6228 or charles.young@hymans.co.uk .

Yours faithfully

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APPENDIX – TRIVIAL COMMUTATION AND SMALL PENSION POTS

Q11 Is there a case for introducing further flexibility in the trivial commutation rules?

We think that the £2,000 limit for occupational schemes should be increased now and then indexed in future. We accept that having a similar allowance for personal pensions poses a significant fiscal risk through multiple policies. Nevertheless, the member could be required to certify the percentage of the triviality limit taken akin to the method employed for the lifetime allowance.

We agree with previous proposals that couples should be allowed to pool small pension pots.

Q12 What are the key barriers to transfer of small pots and are there any proposals from industry, consumer bodies or other interested parties as to how small pot transfers could be better facilitated?

The main barrier is that providers will not accept transfer values unless the individual has received independent financial advice and advisers are unwilling to provide such advice at reasonable cost for small amounts. This could be overcome by it being made acceptable (under Financial Services Authority rules) for providers to accept transfer values below a given amount without the member having obtained independent financial advice.

For further details : charles.young@hymans.co.uk

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