ASSOCIATION OF CONSULTING ACTUARIES

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Donald Cranswick and Emily Pinkerton
Pension & Insurance Policy Department
Financial Conduct Authority
25 The North Colonnade
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By email to cp16-32@fca.org.uk

Dear Donald and Emily

FCA consultation on Handbook changes to reflect the introduction of the Lifetime ISA

I am writing on behalf of the Association of Consulting Actuaries to respond to the consultation on Handbook changes to reflect the introduction of the Lifetime ISA.

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. Members also advise thousands of smaller pension arrangements and individuals (many in self-employment) as well as advising life and general insurers.

The questions concerning the operation of the Lifetime ISA and the sourcebook are not within our field of expertise. However, as consulting actuaries many of the ACA's members have expertise in retirement provision.

Introduction

We note that this consultation asks for comments relating to the promotion and distribution of the Lifetime ISA (LISA), not for desirable changes to the LISA structure. Our comments below are therefore made on the basis of the currently announced structure of the LISA, and the Government's indication to date that the LISA not intending to replace pension provision (including automatically enrolled arrangements) and that savers will not be encouraged to save into LISAs to the extent that they forgo their employer's contribution to their pension arrangement.

If it becomes evident that the LISA is competing against pensions, it may be that the conditions (for example payment age) will be modified to correspond with pensions. However, we assume that this is not the case at the current time.

Our comments are therefore written largely from the basis that as structured, in our view:

- this is primarily a savings vehicle in preparation for house purchase but once funds have been accessed for that purpose, saving may resume/continue for access at age 60
- it may be those who have already purchased property may, if they meet the conditions, wish to take out a LISA to save for access at age 60 (particularly if self-employed).

1. Do you have any comments about the impact of our proposals on equality and diversity?

- We note that the LISA proposals are exempt from age discrimination requirements. The Government's age restrictions of 40 for being eligible to open a LISA account and of 50 for saving into a LISA account do seem unnecessarily age discriminatory and create additional risks for the product) but we agree that the FCA's proposals seek to address these risks.
- We agree that the proposals on the promotion and distribution do not appear to result in direct or indirect discrimination for any of the other groups with protected characteristics.
- However, we do note another area in relation to diversity. The limit on property price could impact disproportionally on those in more expensive areas of the country.

2. Do you agree that the risk categories we have identified capture all of the relevant risks the LISA poses to our objectives? If not, which categories or risks would you add to or remove from our list?

- The risk categories capture broadly those risks that the LISA poses and we would not remove any from your list. However, we think additional items need to need to added within the categories:
- Relating to access (or perhaps falling within the complexity category) there is the risk that a saver might take out a LISA with the intention of purchasing a property but this becomes impossible for whatever reason (for example because the saver cannot obtain the required mortgage, because the purchase falls through or because the intended property fails to meet the LISA requirements). In this situation, the funds are then either locked in (possibly for a very long time, and would no doubt need to be re-assessed in terms of the appropriate underlying investment) or subject to penalty. [We note that this risk is partly exacerbated unless the Government keeps the limit on qualifying property price under review].
- Under the tax category, the relief from employee's national insurance contributions on pension savings to an occupational pension scheme that may be available if using salary sacrifice should also be highlighted where relevant.
- Under the 'Investments' category, investors will need to give careful consideration to the charging structure in the LISA as compared with making additional personal contributions to a

pension (which has a regulatory cap on charges). You already note that investors will need to be warned of the need to re-address investment strategy if short-term investment becomes longer term - but this may mean that a cash-only LISA ceases to be suitable for them at some stage.

- We would point out that the stated "age 58" for accessing registered pension funds is not as simple as described. Based on the present state pension age (SPA) legislation there may initially be some LISA investors whose SPA is between 67 and 68 (so these could access pension funds before age 58) or the SPA legislation may well be amended so that many LISA savers will be subject to a higher SPA than 68 (ultimately meaning that LISA funds could be accessed before the eventual NMPA for pension access). Warnings need to give proper detail on this and link to current correct public information – with a further warning that requirements are subject to change during the period between taking out the LISA and accessing funds for retirement purposes.

3. Do you agree with our proposal to add guidance on information about risks that should be included when communicating with retail clients in relation to a LISA?

- Yes. However further explanation is required than that proposed. For example the early withdrawal charge (and the fact that it is levied on the entire funds withdrawn including investment returns, but net of exit charges) needs to be fully explained and as for any investment vehicle, savers need to be warned that in certain conditions even with no withdrawal charge (ie with the 25% government bonus retained) they still might receive less from their LISA than they paid in. As at present it also needs to be made clear what is the impact of other charges levied by the LISA provider. Overall we think that very careful language is needed to separate the concepts of charges levied by the provider and penalties levied by government The warning that savers may lose the benefit of an employer contribution (via auto-enrolment or generally) if they opt out of registered pension provision needs to be extended also to cover the risk they may lose out on employer's pension contributions if there is an employer matching contribution structure in place and they fail to take up the maximum in favour of saving in a LISA. And overall this needs to be placed in the context that savers might choose to invest in both regimes if they have sufficient funds.
- Risk warnings should also refer to the rules for interaction of LISA funds and means-tested benefits or care fees (and contrast with the interaction of pensions savings with these state benefits) and also the difference in treatment on death or bankruptcy.
- In line with the information proposed, we hope to see the outcome of the FCA consultation on "Amending the definition of financial advice" will confirm that the definition of advice in the Regulated Activities Order will be amended to bring it into line with MiFID to provide firms with greater certainty in offering guidance to potential consumers of LISAs.

4. Do you agree with our proposals to require LISA-specific information disclosures? If not, please explain why.

- Yes. We agree with proposals that a table should help to show investors the impact of inflation and charges on what they might get back from a LISA at age 60. However, we think the impacts of these two elements should be separated out rather than shown as compound impacts. We note that the purpose of the table is not just to understand the impact of inflation (which is very important here given the likelihood that the LISA is primarily held for short term use but might slip across to longer term provision) and to compare ISAs; but also to "allow [readers] to make a comparison with charges on personal pensions". Care will be needed to make the charge element as obvious and direct to compare as possible, given that it is highly likely that retail LISA product charges will be higher than typical workplace pension vehicles.

- The information disclosures also need to point out the interaction between LISA and other ISAs. This is particularly complex where savers are faced with the choice of transferring earlier funds into LISA and obtaining the 25% government bonus (while still contributing up to £20,000 into mainstream, ISA funds), or retaining the earlier funds outside the LISA wrapper but keeping the flexibility of[net 5%] penalty-free withdrawal.
- The information also needs to draw the distinction between no incentive (but no withdrawal penalty) as for mainstream ISAs, incentive (but withdrawal penalty) under the LISA, and tax relief for pensions. Similarly, it needs to explain the difference between taxation on access for either ISA, LISA or pensions and the different requirements for age at access.
- Linked to our answer in 2, explanation needs to be given over the long versus short term nature of the LISA depending on whether it is used for house purchase or retirement. This will shape the investment decisions that need to be made emphasising that these decisions need to be made at the outset, at the point at which it becomes clear that funds are to be used for retirement rather than house purchase and in the period leading up to age 60)

5. Do you agree with our proposals on cancellation rights for LISAs?

- Yes, the extended cancellation rights will help to protect those who may realise that they have made the wrong decision in taking out the LISA. However, this needs to be consistent with the payment of the 25% government bonus (which will apply monthly after 2017/18) – it would need to be made clear that cancellation will not invoke the withdrawal penalty but the funds will not receive the government bonus.

6. Do you agree with our proposal to require all money held within a LISA to be held as client money under the client money rules? If not, please explain why.

- We have no comment on this.

7. Do you agree with the data and assumptions used in this CBA? If not, please explain why.

- We have no comment on this.

8. Do you agree with the description of the costs and benefits in our CBA? If not, please explain why.

- We have no comment on this.

We would be happy to discuss this matter further if you wished. In the first instance, please contact Jillian Pegrum, a member of our ACA Pensions Taxation Committee, at jillian.pegrum@aonhewitt.com

Yours sincerely

Bob Scott
Chairman and Director
On behalf of the Association of Consulting Actuaries Limited