



HM Treasury

Freedom and choice in pensions consultation

May 29 2014

What this presentation will cover

- **Overview of the consultation**
- **Work streams**
- **Timeline**
- **Questions**

Overview

- At Budget 2014, the Government announced the most radical change to the way people take their pensions for nearly a century, by giving people greater choice about how to access their defined contribution pension savings
- The proposals announced at Budget are set out in the consultation “[Freedom and Choice in Pensions](#)” which was published alongside Budget 2014.
- The consultation will be open until Wednesday 11 June 2014.

Workstreams

There are five workstreams:

- Tax system design, including avoidance, the minimum pension age, and the 55% charge on pension funds held at death;
- Guidance;
- DB to DC transfers;
- New products / innovations;
- Welfare and social impact.

Workstreams – Tax system design

- The Government announced the creation of a new, simpler tax system for retirement that will increase the choice available for individuals with DC pension savings - who have increased as a result of the implementation of AE.
- However, providing people with increased access to their savings needs to be balanced with the need to provide them with incentives to accumulate sufficient pension savings.
- People will also be living and working for longer in the future.
- The government has therefore proposed that the minimum pension age be increased to 57, at the same rate as the increase in the State Pension age, but not until 2028.
- The government also wants to ensure the tax rules that apply for pensions on death continue to be appropriate under the new system

Workstreams – Tax system design (continued)

- A flat 55% rate is likely to be too high in many cases given that everyone with defined contribution pension savings will now have the freedom to enter into drawdown rather than an annuity. We are therefore engaging with stakeholders to review these rules

We are therefore welcoming views on:

- Whether a statutory override should be put in place to ensure that pension scheme rules do not prevent individuals from taking advantage of increased flexibility
- How the government could design the new system such that it enables innovation in the retirement income market
- The proposed increase as well as other ways through which the Government could support people in managing their finances in retirement
- The 55% charge on pension funds held at death

Workstreams - Guidance

- It is important that the new system is flexible enough to meet consumer needs across the whole of their retirement.
- Consumers need to be empowered and equipped to make the most of their pension savings, and to make decisions that best suit their personal circumstances for the duration of their retirement.
- We want to ensure that consumers can be confident in the impartiality of the guidance they receive, and would like to hear views on the extent to which this guidance can be delivered by providers without compromising impartiality

Workstreams - DB to DC transfers

- The government intends to introduce legislation to remove the option to transfer from a public service defined benefit scheme to a defined contribution scheme, except in very limited circumstances
- In principle, the government would like to find a way to extend the new freedoms to members of private sector DB schemes.
- The concern of a large scale transfer (or anticipated transfer) of members of private sector DB schemes to DC schemes having a detrimental impact on the wider economy nevertheless needs to be first addressed, and we welcome views on this.

Workstreams - DB to DC transfers (continued)

- The financial markets in which the pension and annuities funds operate are also large and the two account for a significant proportion of investment in domestic financial markets and by extension the wider economy
- A behavioural change:
 - by DC pension holders would only be on new flows into UK annuity funds each year (currently estimated to be around £11 billion per year as the flexibilities would apply to individuals entering retirement
 - by DB pension holders would impact on the overall stock of investment held by DB schemes.
- The Government is therefore also welcoming views on any impact the new flexibilities could have on investment and financial markets

Workstreams - New products / innovations

- The introduction of more choice for pension savers with defined contribution savings presents an opportunity for providers of retirement income products.
- The reforms will allow providers much greater freedom to innovate and create products and processes which better meet the evolving needs of consumers.
- The shape of the market will be driven by the choices consumers make, placing power back into the hands of savers.
- This is likely to stimulate innovation and new competition in the retirement income market, as providers create new products to meet individual consumer needs.
- These reforms will also expand the market to allow further development of existing products, such as deferred annuities.

Workstreams - Welfare and social impact

- Introduction of the single tier pension will significantly change the state support on offer to pensioners, providing greater certainty of their income and lifting a significant number above the level at which they are eligible for means-tested benefits.
- Some commentators, however, believe that individuals will spend their money early in their retirement and fall back on state support.
- The most effective method of ensuring that people have an adequate income in retirement and so do not fall back on the state is to ensure that they have adequate pension savings.
- The proposed changes to the tax rules from April 2015 will allow industry much greater flexibility to develop new products which meet people's social care needs - We are keen to hear views about how the new tax rules could be designed to allow this.

Timeline

- The consultation closes on 11 June.
- We do however encourage early responses as it makes it that much easier for us!
- We aim to publish the Government response by summer recess.
- Legislation will be in place by April next year

Questions?