MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

Freedom and Choice in Pensions
ACA Sessional meeting

MAY 2014

Paul Macro
Chair ACA DC Committee

PENSIONS PEOPLE VALUE,
WHATEVER THEIR PRIORITIES IN LIFE

MARSH & McLENNAN COMPANIES

Pensions are finally good news!


Daily Mail

FEMAIL MAGAZINE

Millions freed from annuity trap

ISA limit soars to £15,000

High-yield savings bonds for the retired

PENSION POWER TO THE PEOPLE

Finally, the Chancellor stands up for savers!


The Daily Telegraph

You have earned it, you have saved it

And now, after years of lean times, Osborne's pensions revolution will reward you too

Clear political budget from an improving Chancellor


DAILY Mirror

55P THURSDAY MARCH 20, 2014

And the rich will get richer. And quicker. Pip pip!

BUDGET 2014

High-risk pensions revolution

Licence to spend for rich OAPs

For young, poor, jobless...ZERO

INSIDE: What the budget will mean for YOU


THE Sun

2 FREE TICKETS

Rompin' Van Persie

MADDIE

A BUDGET FOR Sun READERS

WIN-GO!

1 TAX ON BINGO HALLS HALVED

2 2 PENCE OFF PINT OF BEER

3 PENSIONERS CAN CASH IN

4 HELP-TO-BUY EXTENDED

5 EXTRA £500 TAX-FREE PAY

6 ISA LIMIT UP TO £15,000

7 A MILLION MORE JOBS

8 AND FREEZE ON A WEE DRAM!


5p DAILY EXPRESS

PENSIONS AND SAVINGS JOY FOR ALL

Chancellor's great news for 'makers, doers and savers'

BUDGET 2014 AT A GLANCE

FULL COVERAGE PAGES 2,3,4,5,6,7 and 12&13


THE TIMES

YOUR PENSION • YOUR NEST EGG • YOUR ISA

Pullout 16 pages of expert analysis Plus Norman Lamont, Ed Conway, Jim O'Neill

The savings revolution

Osborne launches biggest pensions reform in a century as he targets grey vote

BUDGET AT A GLANCE

£10,500 | 1p | £15,000 | 55% | £0.5m | 24p


FINANCIAL TIMES

• £3bn wiped off insurance shares • Beer and bingo tax cut • Threshold for ISAs jumps

Pensions revolution as Osborne woos the silver-haired and savers

Budget in brief

Changes from 27 March 2014 to March 2015

Trivial commutation limit increased from £18k to £30k

Small pot commutation increased from £2k to £10k

Minimum Income Requirement for flexible drawdown reduced from £20k to £12k

Capped drawdown limit increased from 120% to 150% of "GAD rates"

These new flexibilities on their own would have been seen as radical

Changes from April 2015

No DC member has to buy an annuity

Minimum Income Requirement abolished

- 25% tax free
- Income withdrawals taxed at marginal rate

Provision of 'guidance guarantee' at retirement

Lifetime Allowance and Annual Allowance restrictions remain

Minimum pension age to be linked to SPA

- From 2028 (57)

It's nothing short of a revolution!

Consultation on details not the policy

- Practicalities of implementation
- Minimum pension age
- Guidance requirements
- Application to DB schemes

ACA view on the new tax framework

- Support policy intent
  - Increased choice
  - Catalyst for increased retirement savings
- Concern over speed of implementation
  - Interaction with other pensions related legislation
- Resulting tax law need to be simple to understand and operate
  - Resulting in true choice / flexibility
  - Anti-abuse mechanisms – proportionate and simple
  - Tax rates on death shouldn't drive members decisions

***Question 1**: Should a statutory override be put in place to ensure that pension scheme rules do not prevent individuals from taking advantage of increased flexibility?*

- Support increased flexibility by way of transfers
  - Extend rights to anytime before crystallisation event
  - Partial transfers
- Cautious on *requiring* schemes to provide flexibility in scheme
- But ensure access to flexibility is not blocked
- Allow range of flexibility in scheme
  - Company / trustee agreement
  - Transfers out only
  - 100% cash
  - Certain members
  - Appropriate charges?

***Question 2**: How could the government design the new system such that it enables innovation in the retirement income market?*

- Leave it to the market
- Simplicity in the tax rules leads to simple products
- Watch interim inappropriate products
- FCA and tPR role here

***Question 3**: Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?*

- Counter to all other freedom/flexibility proposals
  - Wrong message?
- Retain minimum pension age of 55
  - Help to support redundancies, flexible working etc
  - Add additional complexity if grant protection
- If implement then don’t change once over set age

***Question 4**: Should the change in the minimum pension age be applied to all pension schemes which qualify for tax relief?*

- Don’t support change but if does happen…
- Apply to all schemes and consistently across benefits
  - Eg small pots from 60

***Question 5**: Should the minimum pension age be increased further, for example so that it is five years below State Pension age?*

- Don't support change but if does happen…
- Link to 5 years undermines wider changes
  - A gift to pension liberators?

ACA view on Supporting Choice

- Guidance is fundamental requirement for success
- Backlog from outset real problem
  – Postponed retirements
  – System bedding in
- Acknowledge that someone has to pay for it
- Need much more detail
  – What is it?
  – When available?
  – Who will really benefit from it?
  – How is it to be financed?
  – Training and accreditation requirements
  – Consumer protection

***Question 6**: Is the prescription of standards enough to ensure the impartiality of guidance delivered by the pension provider? Should pension providers be required to outsource delivery of independent guidance to a trusted third party?*

- Guidance must be unbiased and promote confidence
- Should not be delivered by those with products to sell

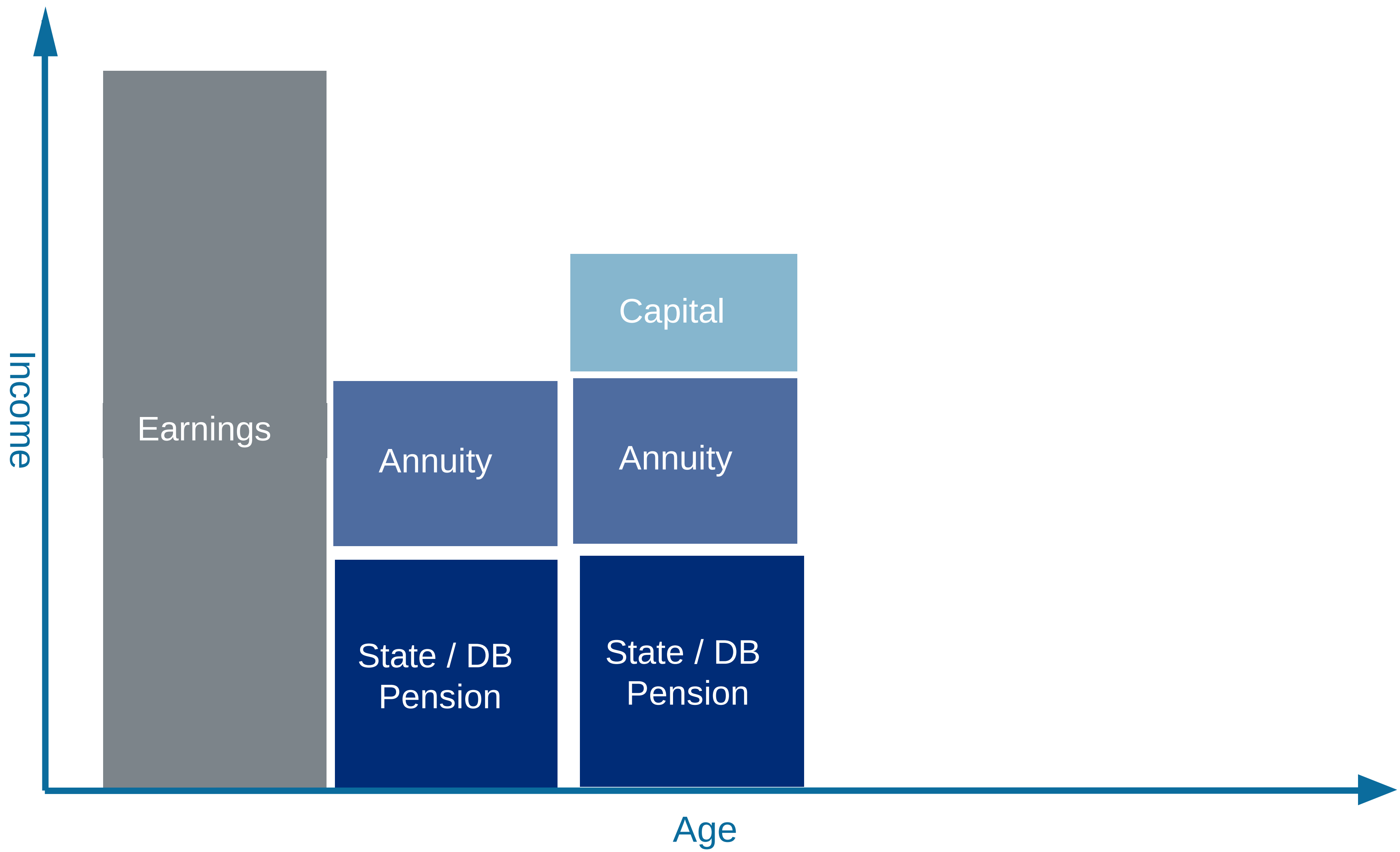
***Question 7**: Should there be any difference between the requirements to offer guidance placed on contract-based pension providers and trust-based pension schemes?*

- Guidance should be consistent

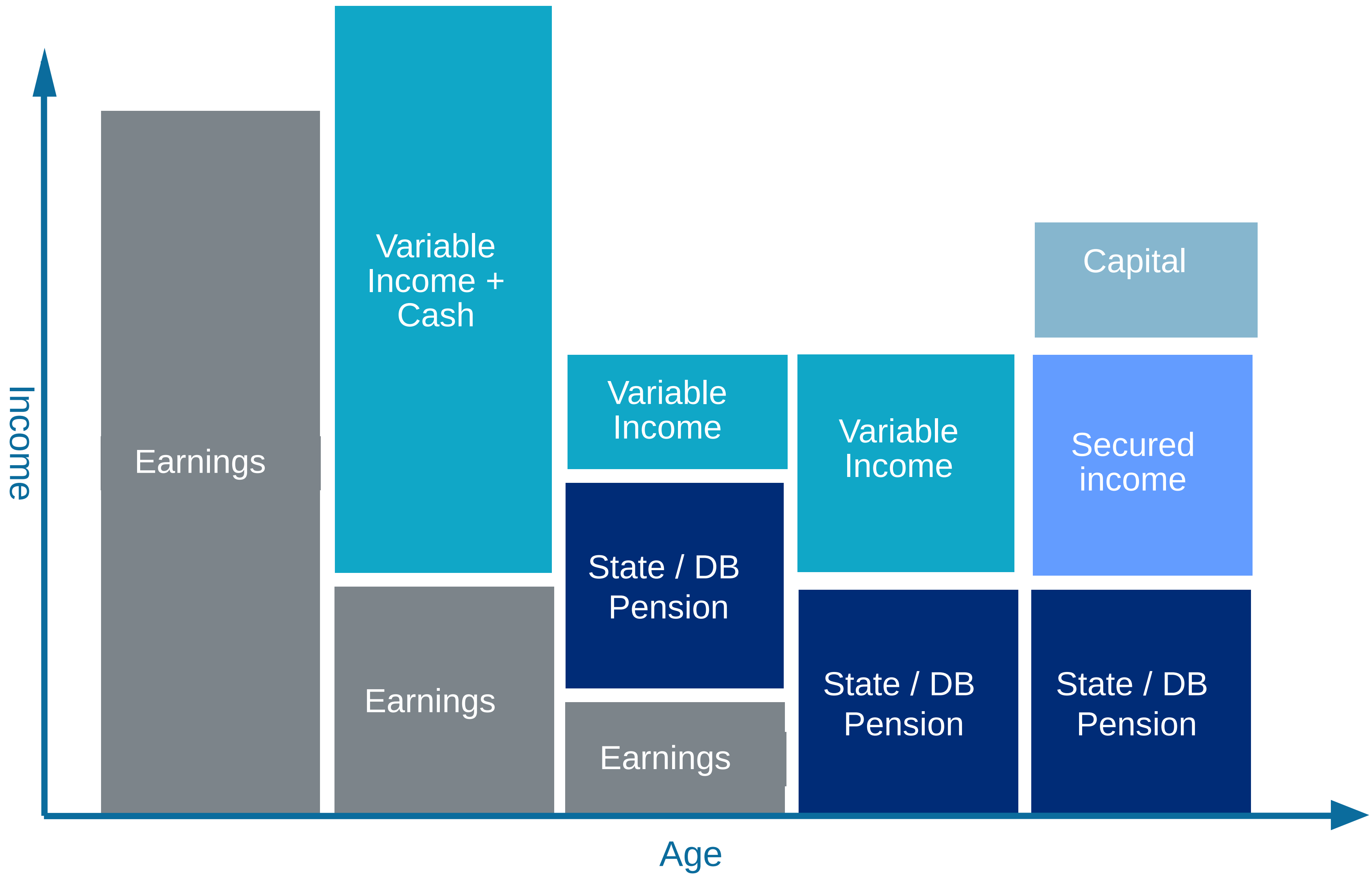
Question 8*: What more can be done to ensure that guidance is available at key decision points during retirement?*

- Need to be clear on who should/should not pay for guidance other than at retirement
- Find a way of providing guidance that covers all an individuals schemes, not separate guidance for each scheme

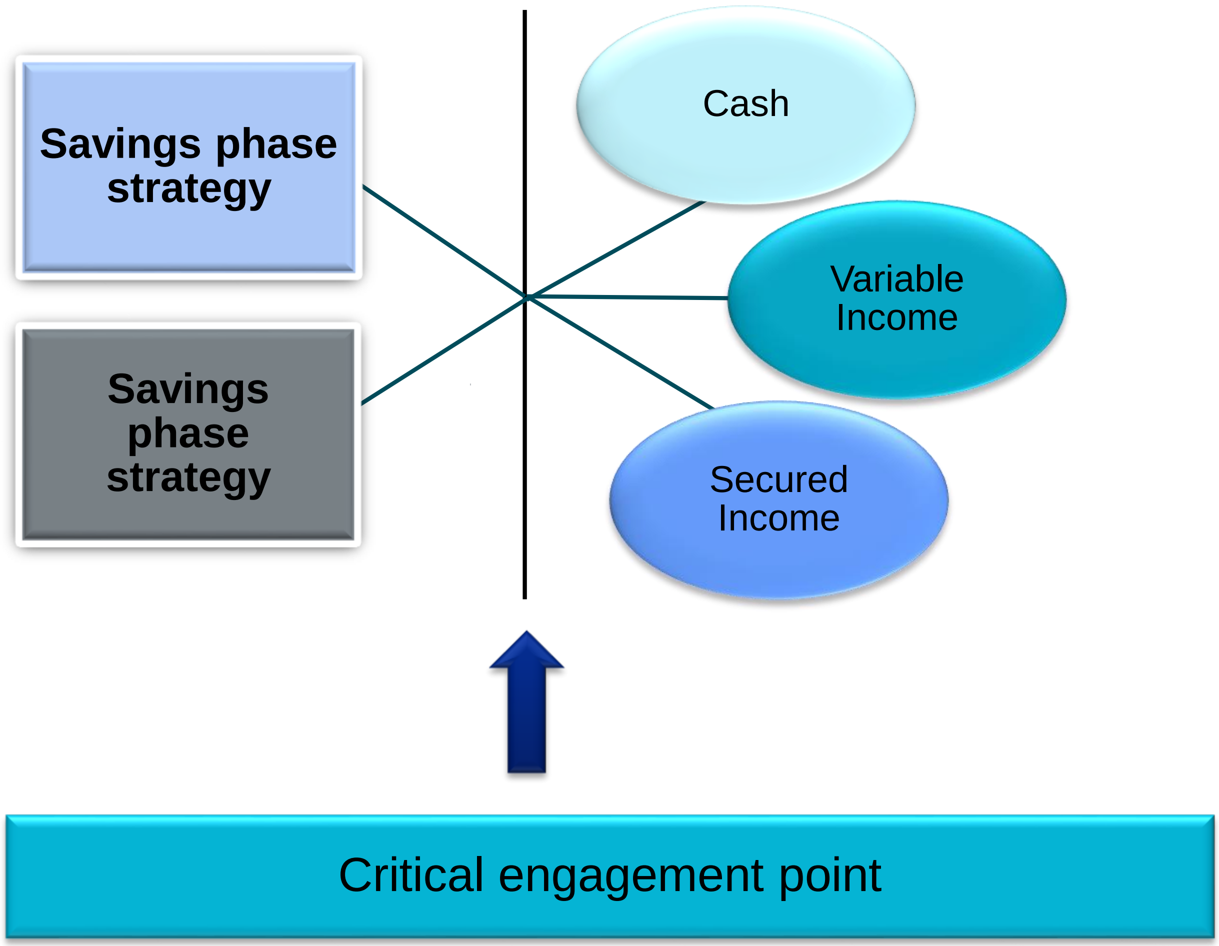
RETIREMENT ‘NOW’



RETIREMENT IN THE FUTURE?



PRE-RETIREMENT PHASE



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