

JIF INDUSTRY BODIES

BY EMAIL

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4 August 2020

John Glen
HM Treasury
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Dear Guy and John

FCA Consultation GC20/1

I am contacting you on behalf of a subgroup of the Joint Industry Forum, consisting of the Association of Consulting Actuaries, the Pensions Administration Standards Association, the Pensions Management Institute and the Society of Pensions Professionals. The subgroup wishes to raise the potential impact of FCA Consultation GC 20/1 on pension scheme trustees' ability to support pension scheme members with decisions on their retirement options.

Executive summary

We are concerned that the guidance in Annex 2 of the consultation that providing illustrative figures on the transfer or conversion may be advice or an inducement will:

1. Mean a significant minority of schemes (those who provide illustrative transfer values and/or an indication of the income this may provide outside the scheme) may need to change their retirement process or risk providing advice.
2. Restrict pension scheme members' ability to make informed decisions about their pension benefits.

This element of consultation has the potential to profoundly impact members of pension schemes (and is rather hidden in Annex 2). We would therefore like to arrange a discussion to understand the policy intention behind this guidance and to what extent it can be achieved while supporting pension scheme members' ability to make informed decisions. Our various members will, of course, be responding to the consultation.

Member guidance and support offered in current pension scheme retirement processes

Since the Pensions Freedom and Choice reform in 2015 (providing individuals with DC benefits full flexibility on how they take their DC pot), trustees of DB pension schemes have been wrestling with how they might support their members making an informed choice about what to do with their DB pension. While, it may be in the interests of most DB members to retain their benefits in the scheme, there will be those members who would be better off taking a transfer.

Financial advice on DB transfers is costly and scarce. Pension schemes have therefore sought to provide guidance and education to members about the options, as members look to the scheme for support making an informed decision about their pension. For this reason, an increasing number of pension schemes are providing one or more of the following as part of the retirement pack / process:

- An illustration of the transfer value payable should the member opt to leave the scheme
- An illustration of what that transfer might provide as an annuity or if put into drawdown
- A financial adviser to support members with their retirement options.

Conversely, where a member aged over 55 requests a transfer, it is good industry practice (as per Pensions Administration Standards Association guidance) that administrators should also provide illustrative retirement figures at the same time.

To put the number of schemes into context, a [survey](#) in 2018 by Willis Towers Watson suggested that a 1/3rd of schemes provide an illustration of transfer values. Trustees **only** feel comfortable in providing this, due to the knowledge that that members with a transfer value in excess of £30,000 are required to take financial advice in advance of taking a transfer (a limit that was set by Parliament).

The requirements of GC20/1 and their impact on pension schemes and members

Annex 2 of FCA consultation GC20/1 is a guide for employers and trustees on providing support with financial matters without needing to be subject to regulation. Page 82 states that:

*“some employers and trustees want to give their scheme members illustrative figures that compare the outcomes a member might get if they keep a safeguarded benefit or transfer/convert it into flexible benefits” and
“that providing such figures could mean that firms are likely to be giving advice or an inducement.”*

The wording is not entirely clear. Is the limitation only in relation to flexible benefits or does it relate to providing a transfer value illustration too? And if showing a transfer is permitted, is it acceptable to show an illustration of the annuity this may buy? Showing a transfer amount alone might steer a member towards wanting to take a particular action (again noting in most cases they will be required to take advice).

We are concerned that a pension scheme providing an illustrative transfer value and / or an illustration of what that transfer might provide as an annuity or if put into drawdown may mean that the trustees are providing advice to the member. If this is the case, those schemes providing this information will need to change their retirement process.

However, more worryingly we think such a change may limit the number of pension scheme members who take advice. Without entering the advice process the member, will not have any figures to compare with their scheme pension. As a result, it is our expectation that, faced with the

cost and difficulty of taking advice, most members will simply draw their pension in the scheme irrespective of whether that is in fact right for them.

Caroline Rookes' report on the British Steel transfer scandal says "The Pensions Regulator should consider with the DWP ... whether the duties for trustees of DB schemes should more explicitly cover a duty to communicate effectively with members". This guidance seems to move in the opposite direction.

We agree that members should take advice. And would have great concerns about the provision of illustrations if the member were able to transfer without taking advice. However, even if the illustrations were to suggest that a transfer might be attractive, members with transfer values in excess of £30,000 would be required to take advice before transferring to an alternative arrangement.

Next steps

As mentioned above, we would value a discussion about how we can achieve any policy aims you have while supporting pension scheme members' ability to make informed decisions about how they access their pension.

Yours sincerely

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