Institute
and Faculty
of Actuaries

Public financial guidance review

IFoA response to HM Treasury

8 June 2016

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Public Financial Guidance Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

8 June 2016

Dear Sirs

IFoA response to HM Treasury Public Financial Guidance Review

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to HM Treasury's (HMT) proposals arising from thematic review of public financial guidance. Members of the IFoA's Life and Pensions Boards have written this response. We have limited our response to those areas where actuaries have significant experience of the issues raised.

General Comments

2. The IFoA believes that the splitting of pensions and money guidance can offer an opportunity to target specific needs for guidance. While there is a risk that the two services could leave gaps in the overall guidance available, we believe that the proposed partnership agreement, with the CEO of each body on both Boards, should mitigate that risk.

3. As we noted in our response to HMT's initial consultation, the savings landscape has become much more complex. Individuals will need help in how best they use both accumulated savings (not only pension assets) and illiquid assets to achieve the best retirement outcomes. In addition, the interaction of taxation and welfare benefits makes the decision making process more difficult.

4. We consider that the current offering from The Pensions Advisory Service (TPAS) provides excellent information for individuals and should form the basis of the new guidance approach.

5. The savings environment continues to change (e.g. the potential use and evolution of Lifetime ISAs); therefore, the money guidance body will need to be flexible. We fully support the need for the body to have capacity to fund targeted projects (paragraph 2.11) to meet consumer needs. Financial information is currently available in many forms. We would encourage the new money guidance body to hold immediate discussions with financial services bodies and research organisations to discuss the available information. Only at that stage should the new body commission new research.

Q1 Are there any specific guidance gaps in the current pensions guidance offering that you think the new body should fill?

6. We consider that the current offering from The Pensions Advisory Service (TPAS) provides excellent information for individuals and should form the basis of the new guidance approach.

London 7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP · **Tel:** +44 (0) 20 7632 2100 · **Fax:** +44 (0) 20 7632 2111
Edinburgh Level 2 · Exchange Crescent · 7 Conference Square · Edinburgh · EH3 8RA · **Tel:** +44 (0) 131 240 1300 · **Fax:** +44 (0) 131 240 1313
Oxford 1st Floor · Park Central · 40/41 Park End Street · Oxford · OX1 1JD · **Tel:** +44 (0) 1865 268 200 · **Fax:** +44 (0) 1865 268 211
Beijing 6/F · Tower 2 · Prosper Centre · 5 Guanghua Road · Chaoyang District · Beijing China 100020 · **Tel:** +86 (10) 8573 1000 · **Fax:** +86 (10) 8573 1100
Hong Kong 2202 Tower Two · Lippo Centre · 89 Queensway · Hong Kong · **Tel:** +11 (0) 852 2147 9418 · **Fax:** +11 (0) 852 2147 2497
www.actuaries.org.uk

We would emphasise the importance of guidance including the appropriate warnings on pension freedoms that there are a range of options available. These warnings should include the benefits of guaranteed lifetime income from Defined Benefit schemes.

7. Pensions guidance must include basic information about investment related matters. As more consumers have Defined Contribution assets at retirement, they must be aware of the specific risks that choosing different types of investment can bring, particularly as they near retirement.

Q2 Are there any pension-related topics that shouldn't be included in the remit of the new pensions body?

8. No. The benefit of a new pension guidance service is providing guidance on all pension issues. As we noted in our general comments, the changes in the pensions landscape mean that individuals need more assistance than ever before. Any guidance on pensions must consider State, occupational and personal pension issues.

Q3 Will these objectives focus the activities of the new money guidance body sufficiently to allow it to improve consumer outcomes?

9. The IFoA supports the target of providing as much funding to front-line services as possible. In addition, the specific objectives should allow the new body to target consumer needs. Identifying gaps in the service, as well as collaborating with other organisations, will allow it to garner expertise from existing sources and apply it for consumers.

Q4 What role do you think the new money guidance body should have in providing research?

10. The most important element is for the new body to draw on existing research. However, where there are gaps in research, the new body should look to engage with research organisations to benefit consumers' needs.

Q9 How should the new money guidance body seek to understand the gaps in the provision of money guidance?

11. Financial information is currently available in many forms. We would encourage the new money guidance body to hold immediate discussions with financial services bodies and research organisations to discuss the available information. Only at that stage should the new body commission new research.

Q10 Is the planned focus on local and digital financial capability raising projects the right one?

12. Consumers have embraced new technology. The new body will be able to access a majority of people by using those tools. However, for a proportion of the population new technology remains a challenge. The new body should not rely solely on digital tools, as many of those who need guidance may not have access to the technology, or may not feel comfortable using it.

13. Local projects may be effective in targeting guidance to groups of individuals with similar circumstances (eg lifestyle, occupation, income). However, the new body should not ignore national projects that can meet the needs of large numbers of people. The new body may be

able to use local projects in a number of locations; therefore, passing on information across the new body will be important.

14. Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours sincerely,

Nick Salter
Immediate Past President, Institute and Faculty of Actuaries