



Institute  
and Faculty  
of Actuaries

# Making Retirement Choices Clear

IFoA response to the Association of British  
Insurers

17 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.



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Dear Pensions Language Steering Group

### **Institute and Faculty of Actuaries response to Making retirement choices clearer**

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the ABI's consultation on making retirement choices clearer. A large proportion of our members work in pensions, with many advising schemes, firms and sometimes individuals on complex technical issues. As such, we recognise the importance of using simple and appropriate language to support understanding, and to avoid confusion.

We support the aims of the Pensions Language Steering Group and agree that, in order to support individuals in making increasingly complex decisions about their retirement income, clear and consistent communication with the public is important. We have suggested three further areas that the Guide might address:

- Longevity risk
- An explicit distinction between guidance and advice
- Transfers from a Defined Benefit (DB) arrangement to a Defined Contribution (DC) arrangement to access the government's pension freedoms

#### **Longevity risk**

An explanation of longevity risk could be useful in communicating the importance to an individual of their savings lasting for the duration of their lifetime. Understanding life expectancy and knowing how long one individual will live for is complex. It is important that individuals understand the potential range of ages they might live to and the impact this might have on how long their retirement income will need to last. If an individual does not understand the potential consequences of underestimating how long they are going to live, there is a risk that they will run out of money in retirement.

We suggest that for the purpose of the Guide a possible explanation of longevity risk could be, *'The risk that you live longer than expected which means that your savings have to last for longer. To protect against running out of money should you live longer than expected there are products available that will guarantee you an income for life'*.

#### **The difference between guidance and advice**

We welcome that the Guide defines both guidance and advice, as a survey that we commissioned on public attitudes to the pensions freedoms found that many over 55s are confused about the distinction, with 45% of respondents admitting they do not understand or are not sure of the difference between guidance and advice.<sup>1</sup> Making clear that advice and guidance are distinct could be crucial for

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<sup>1</sup> <https://www.actuaries.org.uk/documents/freedom-and-choice-public-attitudes-1-year-survey-report>

managing customers' expectations of what information they will receive. It is important for customers to understand how the guidance they receive from Pension Wise should be treated, compared to regulated financial advice, when making important financial decisions about their pension.

We therefore suggest that the Guide could be further strengthened by including an additional sentence to help individuals understand that even if they have received guidance, they may wish to pay for regulated financial advice before making a decision regarding their pension. For example, at the end of the definition of guidance it may be useful to add '*If after receiving guidance you are not sure what to do with your money, then you may consider paying for an independent financial adviser to recommend suitable products (please see the section on advice for more information).*' Sign-posting between the two definitions acts as an additional alert to individuals that there is a clear distinction between the two.

There is also inconsistency around which advice and guidance outlets are referred to at different times throughout the Guide. For example, it is not clear why the section on tax refers customers to Pension Wise, HMRC or their advisor for help, whereas the section on 'mixing your options' only cites Pension Wise or an advisor, when other sources may also be appropriate. A more consistent approach could be applied, to make clear to customers that help with each of these issues can be obtained from some or all of the sources listed. Alternatively, if the Guide sets out these sources up front, it may not be necessary to refer to them within the general body of the text.

### **DB to DC transfers**

The Guide could also be strengthened by including wording for those who might be considering transferring from a DB to DC arrangement. Whilst the decision and related terminology around DB to DC transfers can be complex, some attempt to tackle this could be a helpful way to explain this complicated procedure to customers.

We would suggest wording such as '*You may have a DB pension, but wish to change to an alternative type of pension. When you approach your pension provider about this option, you can expect to receive a quote for the transfer value for your existing pension benefits. You can use this amount to transfer to a different pension plan, but you will give up the rights associated with your DB pension. If your transfer value is over £30,000 you may have to pay for financial advice before your pension provider can allow you to transfer your pension.*'

Finally, it is important to note that pensions legislation is fundamentally complex and that simple wording can have the potential to be misleading. The Guide must strike an appropriate balance between simplicity and accuracy. For example, the statement under advice that "*You are required to obtain advice from an adviser if your pension pot is over £30,000 and it contains a special feature, such as a guaranteed annuity rate*" may lead someone with a guaranteed annuity rate to think they need to take advice in all cases, not just if they are proposing to transfer to pure DC.

Should you want to discuss any of the points raised please contact Rebecca Deegan, Policy Analyst at [Rebecca.Deegan@actuaries.org.uk](mailto:Rebecca.Deegan@actuaries.org.uk) or call 020 7632 2125 in the first instance.

Yours sincerely,



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