Institute and Faculty of Actuaries

Introducing a Pensions Advice Allowance: consultation

IFoA response to HM Treasury

25 October 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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Assets, Savings and Consumers
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

25 October 2016

Dear Sirs

IFoA response to Introducing a Pensions Advice Allowance

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to HM Treasury's (HMT) consultation on introducing a Pensions Advice Allowance. Encouraging individuals to consider whether advice is appropriate for them and increasing accessibility to, and affordability of, advice is particularly crucial post-freedom and choice. Long-term financial planning is complex and helping individuals to navigate the choices available to them for their defined contribution (DC) pension savings is likely to be key to the success of the freedom and choice reforms.

2. We have only answered those questions where we have relevant expertise..

Summary

3. We support the aims of HMT and the FCA in introducing a Pensions Advice Allowance. In particular, we welcome the proposal to allow adviser charging to be used for holistic retirement advice that considers all of an individual's savings. However, it is not clear whether the scope of the advice is intended to be restricted in any way, or whether the holistic aspect could include, for example, advice on the mortgage of a second home that forms part of an individual's retirement plan. We therefore request further clarity from HMT on the scope of what it considers to be holistic retirement advice.

4. We recommend that restrictions around accessibility focus on value for money as opposed to factors such as age and the number of times a person wishes to use the allowance. For example:
    a. *Why set an age limit?*
    If we were able to encourage individuals to undertake long-term financial planning earlier, this could help to drive up levels of savings and build financial capability over time, rather than waiting until they are approaching age 55 or retirement. Accessing advice and creating a long-term financial plan earlier in life has the potential to reap greater reward over the long-term.
    b. *Why limit the number of uses?*
    Retirement planning is no longer a one-off decision at the point of retirement, therefore individuals should be encouraged to continue to review their finances

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throughout their retirement. Limiting the number of times someone is able to use the allowance may act as a barrier to them seeking advice during their retirement.

c. *Will a minimum pot size be required?*
Will HMT place any limits on the minimum pot size in relation to the product from which the Allowance may be taken, or if the allowance is being used to get advice on a number of pots, on the total size of those pots? It is important that for those individuals with a small amount of savings, the proportion of their pot they spend on financial advice offers value for money.

Question 2: The Government welcomes views on the proposed design of the Pensions Advice Allowance.

5. We welcome the proposals to change the pension tax rules that will allow adviser charging for multiple pots and other assets saved for retirement income as authorised payments. We ask that HMT is clear on what it considers to be holistic as it develops this policy as it is important that the regulatory framework enables, rather than acts as a barrier to, individuals undertaking holistic financial planning for their retirement.

6. Making this allowance tax-free could be an important incentive and help to increase the number of individuals accessing advice services, particularly in the short-term. Whilst this could be an important incentive in the initial implementation of this policy, we recommend the Government agrees to review this at a later date. Once individuals begin to see the benefits of financial advice, this incentive may no longer be required. The removal of the tax incentive could reduce the need for HMT to place some of the restrictions on access that it is considering in this proposal, for example, the number of times an individual can use the allowance, which is likely to have a bearing on the age from which the allowance should be made available.

Question 3: The Government welcomes views on this option. Are there any other ways to limit the number of times individuals can use the allowance?

7. We recommend that the allowance is limited to one use per annum. This could be beneficial for those individuals who choose to enter an arrangement that requires active management. The limit of once per annum could also be sufficient to protect individuals from scams.

8. The consultation expresses a concern that allowing multiple uses of the allowance could create an unfair tax advantage for those individuals who are able to afford to take advice more regularly. If the necessity for a tax incentive were removed at a later date, as discussed in our response to question two, this would remove the potential for an unfair tax advantage for those who use the allowance more regularly. Therefore reducing the need to strictly limit the number of times an individual can use the allowance. Retirement planning is no longer a one-off decision at the point of retirement; therefore, individuals should be encouraged to continue to review their finances throughout their retirement. Limiting the number of times someone is able to use the allowance may act as a barrier to them seeking advice during their retirement.

9. If HMT decides to limit the number of times an individual can use the Allowance, we would welcome clarity on where responsibility for monitoring that would lie.

Question 4: What age should the allowance be available from?

10. We agree with the FAMR recommendation that the Pensions Advice Allowance should be available before age 55. Effective early engagement with retirement planning could help to increase levels of savings and ultimately help individuals to take greater control over their long-term financial planning. Engaging individuals with their retirement savings as early as possible has the additional benefit of being able to build their financial capability over time, in a way that is perhaps more manageable than having to grapple with financial planning for retirement in the immediate lead up, or at the point of retirement. We suggest that rather than have a lower age limit, that Treasury considers how individuals might be encouraged to think about planning for their future as they enter the workplace. The roll out of auto-enrolment provides an ideal opportunity to alert individuals to other services that can help them prepare for the future.

Question 5: How could consumer awareness of the allowance be increased?

11. Government, employers, providers and guidance services could all play a collective role in raising awareness amongst consumers:
    a. The roll out of auto-enrolment provides an opportunity to alert and even nudge individuals towards the Allowance.
    b. The successful implementation of the pensions dashboard could provide another opportunity to alert individuals to the Allowance. If individuals are able to see their pension savings in one place, signposting them to relevant guidance and advice services would be a helpful next step.
    c. Pension Wise is an obvious route for providing information on the Allowance.
    d. Alerts in scheme members' annual benefit statements could also alert consumers to the Allowance.

Question 7: The Government invites comment on the proposed scope of the Pensions Advise Allowance.

12. We agree that the Allowance should be limited to full regulated financial advice so that appropriate consumer protections are in place.

13. Owing to the treatment of adviser fees for defined benefit (DB) to DC transfers that is already in place, we agree with the proposal to cover those with DC pots and those with both DC and DB entitlements, whilst excluding those with just DB entitlements.

Question 9: How could the Government maximise access to the Pensions Advice Allowance?

14. It is important that access to the Pensions Advice Allowance is considered for those members in legacy schemes that do not offer adviser charging. Many older style pension products will not have the facility to make partial withdrawals to pay for advice. These products will not be linked to any existing systems that facilitate adviser charging and many of them will be on old systems, which would be expensive to change, the cost of which may ultimately fall to consumers. It is not clear that products with complex guarantees, such as with-profits policies and policies with guaranteed annuity rates, could be easily adapted to allow partial withdrawals. A possible outcome would be that customers with such policies could lose some, or all, of those guarantees if the policy either fully or partially cashed in early. For these types of policies, a simpler and more cost effective solution could be to allow policyholders to pay the adviser directly and claim tax relief on the £500 from HMRC, although this will require more action from the policyholder to receive the same tax benefit.

Question 12: Are there any difficulties in offering facilitation of adviser charging for products with other types of guarantee?

15. As noted in our response to question nine, it is not clear that products with complex guarantees, such as with-profits and guaranteed annuity rates, could be easily adapted to allow partial withdrawals.

Question 13: The government welcomes views and evidence on any difficulties in offering the Pensions Advice Allowance presented by scheme rules or more generally in respect of members of occupational pension schemes.

16. Offering the Pensions Advice Allowance for occupational pension scheme members is likely to require changes to scheme rules or overriding legislation.

Question 14: The government welcomes views and evidence on any difficulties in offering the Pensions Advice Allowance for automated advice models.

17. Whilst providers will be able to give a better indication of potential difficulties in offering the Pension Advice Allowance for automated advice models we would like to express our support for the Allowance covering automated advice models as far as it is practically feasible.

Question 16: Are there any other ways to mitigate the risk of fraud?

18. We suggest that limiting use of the Allowance to once per year could help protect individuals from scams.

Should you wish to discuss any of the points raised in further detail please contact Rebecca Deegan, Policy Manager (rebecca.deegan@actuaries.org.uk / 02076322125) in the first instance.

Yours sincerely

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