Valuing Pensions for the Advice Requirement Allowance And Introducing New Consumer Protections

IFoA response to Department for Work and Pensions

7 November 2016

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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.

Institute and Faculty of Actuaries

Department for Work and Pensions
Decumulation and Transfers Team
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7 November 2016

Dear Decumulation and Transfers Team

IFoA response to 'Valuing pensions for the advice requirement and introducing new consumer protections'

1. The Institute and Faculty of Actuaries (IFoA) welcomes DWP's consultation on valuing pensions for the purpose of the advice requirement and introducing consumer protections for scheme members with safeguarded-flexible benefits. We agree with DWP that it is imperative that these members understand any guarantees to which they are entitled before they decide whether to surrender them in order to access full pension flexibility. However, this proposal would result in different treatment between members of defined benefit (DB) schemes with less than £30k of benefits and members with safeguarded-flexible benefits less than £30k.

2. Personalised illustrations have the potential to be more useful to consumers than generic risk warnings. We agree that the process for sending these needs to be efficient, so that they are sent to an individual in time to inform their decision-making. However, if they are to be delivered in a way that engages the consumer and aids their understanding of any guarantees, it is important that the practicalities of providing these illustrations within a short timeframe be considered.

3. We have responded to questions nine and ten as our member's have specific comments that we hope are useful to DWP.

Q9. Should we also seek to offer schemes the alternative of generating the comparative income illustrations using other assumptions, such as those in Chapter 13 Annex 2 of FCA's CoBS rules? Would this offer greater flexibility for schemes and be helpful to members by ensuring consistency with other FCA mandated projections? Or could it add complexity, lead to member detriment, or have any other unintended consequences?

4. We agree that schemes should have the option to use the assumptions given in the FCA's CoBS rules, as an alternative to the assumptions used for SMPIs. However, as the projections for SMPIs are becoming rapidly out of date, we suggest a potential third option, namely, that the provider of the GAR is able to use a current quote for an annuity. This may be a more pragmatic option in some cases, but it is not without its own considerations. For example, where the GAR depends on the retirement age of the member, they would have to know and alert their provider of their intended retirement age for the illustration to be useful.

Q10. Are there any circumstances where members with potentially valuable guarantees would not be covered by the proposed risk-warnings? If so, do you think that the existing information provided by schemes is sufficient to ensure that these members understand the implications of giving up their guarantees?

5. Members of DB schemes with less than £30k of benefits are able to transfer their benefits and surrender their guarantees without taking advice. This proposal would result in members with safeguarded flexible benefits receiving greater assistance than an equivalent DB scheme member does. We suggest DWP considers whether it is necessary to ensure consistency between the advice requirements that apply to DB schemes and those that apply to safeguarded-flexible benefits.

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

Yours sincerely

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Colin Wilson
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