Response by TISA to Increasing the normal minimum pension age: consultation on implementation

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry.** We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.

Executive Summary

TISA welcomes the opportunity to respond to the HMT/HMRC consultation - Increasing the normal minimum pension age: consultation on implementation.

We understand the reasoning behind the intention to move back the Normal Minimum Pension Age (NMPA) to 57, in order to maintain a link to State Pension Age (SPA) and to help protect savers from eroding their private pension pots too early.

ONS statistics show that life expectancy is predicted to continue increasing, with someone born in 2068 expected to live between five and six years longer than someone born in 2018. We can therefore expect both state and private MPAs to periodically increase to broadly maintain the same ratio between expected length of working life and retirement. With this is mind, it is important that the approach undertaken to increase the NMPA in 2028 and in the future is consistent, and applies the fundamental principles of fairness, simplicity, and certainty.

We welcome the intention behind the proposals to enable scheme members to protect their existing NMPA of 55 in certain circumstances, however proposing an immediate (now retrospective) effective date for a proposal that is still subject to consultation, falls short of meeting the fundamental principles for the reasons set out in our question responses.

If the impact of moving the NMPA back by two years makes little difference to retirement outcomes, then it would be logical to offer no protection and for all individuals to transition to an NMPA of 57 in 2028 (subject to existing protections). Whilst this removes a proposed protection, it is more in keeping with the essential principles. A lead period of seven years until the change takes effect is sufficient time to enable members to plan accordingly and removes much of the complexity created with the proposed protection regime.

If, however, it is deemed to have a negative impact on retirement outcomes for existing savers, then we would query whether the proposed protection regime (which essentially means that thousands of scheme members retrospectively retain the existing NMPA irrespective of age and the amount of future accrual), is the correct way in which to protect that right. Consulting on a protection regime with a future effective date enabling schemes and members time to prepare, would go some way to meeting the three fundamental principles. It would also be fairer and more consistent for regime eligibility to be based on scheme type, as the proposal which bases it on the wording of the scheme rules essentially discriminates against a significant number of pension scheme members, based on an arbitrary rule.

We would welcome the opportunity to discuss our response with you further.

Question responses

Q1. Are there any specific considerations that should be taken into account regarding the government's proposed framework for the increase to the NMPA?

A fundamental principle that requires clarity is what constitutes an 'Unqualified Right'. Whilst the term is clarified by HMRC in the Pensions Tax Manual, guidance contained within PTM can and has been subject to dispute, even by HMRC themselves. We would ask for confirmation that the definition remains the same as it did for A-Day, and that the same, or substantially the same test should be applied by schemes, to determine their position on the increase to the NMPA and associated protection.

When the NMPA was increased to 55 in 2010, no immediate transfer provisions were made for individuals between the ages of 50 and 55 with a pension in payment. The regulations will need to enable the transfer of all pensions in payment, without impacting on the future ability for members to continue receiving income payments.

We would ask for clarification on how the proposed 2021 protection (PPA21) interacts with other forms of protection e.g. if an individual has a protected pension age of 50 and breaks the retirement condition rule, could they fall back on PPA21 if eligible?

Q2. Are there any particular issues that the government should consider in the way NMPA is defined in pension scheme rules?

N/A

Q3. The government proposes that the protected pension age will apply to all the member's benefits under the scheme (if the conditions for a protected pension age are met), not just those benefits built up before 2028. Are there any other alternative options or issues the government should consider around the treatment of accrued and future pension savings?

Whilst we understand and welcome the intention with this proposal, it generates some outcomes which are perhaps not as intended and adds considerable complexity and uncertainty to the current administration of schemes and the transfer market. The ability to retain PPA21 in various scenarios outlined below will be confusing to members and adds to the existing complexities which individuals need to navigate through in their retirement planning.

We have been placed in an unusual position where the proposed protection regime that is being consulted on is retrospectively applied. Or maybe not. That depends on the consultation outcome, but you can understand the uncertainty that this approach creates.

The current rules appear to enable anyone of any age who holds a pension arrangement in an eligible pension scheme on 12 February 2021, the ability to retain PPA21 for all future accrual into it. An individual of 18 who holds such an arrangement, could therefore keep this arrangement open/deferred, accrue DC pension wealth over their working career and transfer this into the dormant arrangement as part of their retirement planning and retain the flexibility of PPA21 for their entire accrued DC pension wealth.

Alternatively, they could (subject to requirements) perform a series of Block Transfers, porting PPA21 to new arrangements as they generate new pots over time. We expect there would be a significant increase in the number of Block Transfers processed, as individuals will want to retain the flexibility of PPA21, even if this is not necessarily required at that time. This will increase average transfer turnaround times, due to transfers of this nature often falling out of an automated process.

The uncertainty caused by the proposed rules are currently impacting the transfer market. TISA members are receiving calls from regulated advisers who are looking to perform bulk transfers to new schemes. However, clarification is needed to confirm that PPA21 will be included in the Block Transfer rules and backdated to 12 February. Presently, without this clarification, advisers are concerned that the protection could be lost, which is acting as an incentive to delay transfers and potentially results in poor member outcomes by staying in older schemes which offer less VfM. This seems like a small risk and we are sure the intention is that there will be no gaps in the protection regime, but confirmation is required to confirm that everything to do with protection will be backdated to 12th February (or revised date) including block transfer rules.

Where new pension entitlements are created through Auto Enrolment, administrators will need to check if newly enrolled employees hold PPA21 generated through previous employments which used the same multi-employer registered pension scheme. Where this is the case, new entitlements would continue to benefit from PPA21. This could add additional manual steps to the new joiner process for workplace pension schemes.

Any automated Small Pot solution would need to factor this in, otherwise an automated transfer could mean an individual loses PPA21 when it transfers to a current pot. Possibly a 'carve out' for Small Pot transfers would need to be considered.

Although it has been considered that only protecting benefits accrued up to 2028 creates unnecessary complexity, having a clean break may achieve better and less complicated industry and consumer outcomes. Ringfencing benefits accrued up to 05/04/28 could cause administrative challenges and may need the creation of a new pension arrangement. However, the transparency created could create better and more certain outcomes. We believe this needs further investigation.

Whilst the concept of a 2021 protection regime is welcome, the complexities prompt the question of whether it should exist at all. Moving the NMPA back to 57 with no protections will impact on a small group (one large pension provider states around 5% of their membership accesses before 57), however a 7-year lead-time with appropriate provider communications provides beathing space for individuals to adapt their retirement plans, if impacted. If the NMPA continues to be moved back in line with predicted life expectancy increases and a protection regime accompanies each change, we continue to create a long list of transitional protections with associated additional complexities for industry and scheme members.

Part of the complexities which surround the proposals are linked to having an immediate effective date (at the time of consultation issue) for a proposal which is still subject to consultation. If the proposed protections have a future effective date, this provides a window of opportunity for industry to prepare and for new joiners to be informed of the forthcoming changes and plan accordingly. A similar approach was adopted in the period prior to A-Day, where details of the protection was issued in December 2003 and applied to all joiners up to 5 April 2006.

Q4. Are there any issues associated with schemes informing members who meet the conditions of their rights to a protected pension age?

Due to the retrospective nature of this consultation, new joiners and opt-outs may or may not have been informed of the potential revision or details of their NMPA. Either way, any retrospective implementation will require retrospective communications to those impacted. This may also impact on decisions which have already been actioned, e.g. transfers out and the loss of PPA21.

Q5. Are there any circumstances why the increase in NMPA may impact on pension flexibility (which was introduced following the 2014 consultation on "Freedom and Choice in Pensions")?

Please see our response to Q6.

Q6. Are there any implications the government should consider by not requiring that all scheme benefits must be crystallised on the same day as a condition for a protected pension age?

We welcome the proposed relaxation to enable those with PPA21 to have the opportunity of accessing their pension on a phased basis and therefore benefitting in full, from the flexibility created with pension freedoms. However, we would like to see this relaxation extended.

It would seem illogical to allow this group of protected individuals to benefit, whilst still denying those with previous scheme specific protections the ability to also access pension freedoms to their fullest extent. We would therefore like to see the 'partial crystallisation' restriction removed for this group as well.

We also believe there is no reason for the rules around Block Transfers to remain in place at all. The existing rules can restrict members from shopping around to obtain appropriate retirement options, which may not be available through their existing provider. The concept of having to find a 'buddy' can be manipulated, and seems a peculiar requirement to meet, in order to retain protection. The 12-month rule is also highly restrictive and no longer appropriate for today's pension framework. A significant number of savers are enrolled into multi-employer pension schemes, where it is not unusual for historic entitlements to be held as well as a newer active pot. The combination of existing complexities introduces a sizeable overhead for multi-employer schemes to ensure employee protections are maintained and unauthorised payments are detected and avoided.

Working patterns and the decumulation landscape have altered significantly in recent years, and we consider it an appropriate and timely opportunity for these rules to be completely removed. This would enable everyone to benefit from the full range of retirement options that are available in the open market, also reflecting that retirement is no longer the 'cliff edge' event it once was.