Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, comments on why the government's decision to restore maximum drawdown levels to 120% won't necessarily solve falling income levels.
- Carol Knight, Director of Member Services at TISA, provides an update on TISA Exchange Ltd (TeX).
- Peter Smith, Head of Distribution Engagement at TISA, comments on the confusion over consultancy charging.

INCOME DRAWDOWN – SOME WELCOME RELIEF?

Retirees taking income directly from their pension funds have been hit hard in this year's triennial reviews, with income levels reducing by up to 50% in some cases under the impact of sharply falling annuity rates, sluggish fund performance and the reduction to 100% of the GAD (Government Actuary's Department) rate two years ago. The announcement in the Autumn Statement that the maximum drawdown level will be restored to 120% was therefore very welcome. However, no implementation date has been given and there is a possibility that it will need legislation to give effect, so we should not jump for joy just yet. Furthermore, it will not, in and of itself, solve the problem, in that it will not plug the kind of income reductions we have seen in the market.

The real core problem for income drawdown limits is the link to annuities, which in turn are correlated to gilt yields. Drawdown investors would not put 100% of their money into gilts. They rightly want market exposure across the piece, including equities and corporate bonds. Using equity income and bond strategies, I'd suggest it should be possible to pretty reliably crank out 4.5% to 5% per annum, net of charges, rather than the much poorer returns offered by an annuity today. Those in income drawdown should have a percentage of fund limit in any given year, rather than the irrational link to annuity rates we see at present.

Malcolm Small, Director of Policy

TeX TAKES FLIGHT

Very busy times in the run-up to Xmas and of course the implementation of RDR. Our main focus at the moment is TeX. Not only do we have a number of firms who are looking to join before everyone disappears on holiday, but we are also busy starting to define the requirements for MI (in the sure knowledge that FSA/FCA will be looking for evidence that firms are compliant with RDR) as well as identifying the scope for Phase 2. And I have no doubt that will wet a few appetites with the potential to extend the opportunity for faster, smoother, cheaper transfers to a wider range of investments and products. We already have 24 firms signed up with another 22 or more likely to submit their forms in the next few weeks. Some firms have already started using electronic messaging, so if you haven't already joined, or want to know what this is all about, feel free to get in touch.

Our project on maintaining client data is also approaching a very interesting stage. With the objective of producing industry standards for meeting the FSA and TPR (The Pensions Regulator) requirements, we will shortly be circulating a questionnaire to gather data on the current position and then move on to identifying agreed processes to minimise the number of 'gone-aways' on everyone's books. Again, if you are not part of this project, feel free to contact me and participate.

Carol Knight, Director of Member Services

STOP THE BUS

Advisory distributors have been thrown into turmoil with their advice models, particularly those in the corporate advice market. Four weeks before the introduction of RDR, the government has suddenly announced plans to carry out an urgent review of consultancy charging.

Currently, when advising employers it is possible to levy a consultancy charge for work carried out, allowing the charge to be deducted from the pension pots of employees who join schemes. In advance of auto-enrolment, advisers have already developed business models assuming consultancy charging will be allowed. The problem is exacerbated by many small and medium-sized employers expected to be unwilling to pay fees in advance.

Steve Webb, Pensions Minister, has asked the ABI to clarify concerns around consultancy charge deductions from an individual member's pension pot, where there is a tangible benefit to that individual. He has requested evidence to satisfy him on this point and will then decide whether to permit consultancy charging to be levied on auto-enrolment schemes.

The FSA has stated that they would not expect consultancy charging to be used very often and it is within the DWP's capabilities to stop consultancy charging. They stress consultancy charging has to be in the best interests of the client and has to be a tangible benefit.

We are four weeks from the RDR deadline and advisers still have no idea whether they can levy a consultancy charge for setting up a scheme within their business modelling . The DWP are saying you cannot erode contributions through consultancy charging and the FSA is saying it has to be a better deal than the auto-enrolment minimum aimed at a number of SMEs (small and medium enterprises) who will not pay fees. Sleepless nights ahead for some advisory firms.

Peter Smith, Head of Distribution Engagement

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