18th JANUARY 2013

Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy, comments on why TISA welcomes the Government's White Paper on how a flat-rate basic state pension will operate.
- Jeffrey Mushens, Technical Director, outlines how TISA is working with the industry on FATCA.
- Peter Smith, Head of Distribution Engagement, discusses the regulator's intention to conduct thematic reviews throughout the year to ensure RDR implementation has been successful.

TOWARDS A FLAT RATE BASIC STATE PENSION

The long awaited and very late (it was originally scheduled for Q2 2012) White Paper on how a flat-rate basic state pension is to operate finally saw the light of day this week. We have long argued for this move, and have pointed out the vast complexity of the current regime, as well as the adverse interaction of savings and means-tested state retirement income benefits, as reasons for reform. So, it's great to see that this vision is likely to become a reality. TISA wholeheartedly welcomes the direction of travel. A flat-rate basic state pension, which makes it clear to people exactly how much they can expect from the state – and just as important, how little – provides an incentive for further saving, which must be good for our industry in the long run.

However, there are some points to watch. The end of contracting-out will mean higher National Insurance contributions for employers and employees in Defined Benefit schemes. 80% of those retiring in 2035 will have at least some contracted-out history, where they paid lower National Insurance (NI) rates. This will be reflected in lower state pension payments, but the formula for this is not yet clear. The number of years of NI record to qualify for the full state pension has gone up from 30 years to 35 years, and the transitional arrangements are highly intricate in places, reflecting the extreme complexity of the current regime. Pension Credit will remain as a safety net going forward, perpetuating the means-tested regime for a few, and the costs that go with it.

Putting this to one side, we at last have the prospect of having a state pension system that the man in the street has a fighting chance of understanding and clarity of prospective state pension levels that we have never had until now. The Pensions Minister is to be congratulated on his dogged persistence in getting this White Paper through. All we need to do now is implement it….

Malcolm Small, Director of Policy at TISA

FATCA APPROACHES

HMRC published draft guidance on FATCA before Christmas and is now in consultation; TISA is busy supporting members whose concerns are around registration, who is responsible for what, and how entities can efficiently communicate with clients and each other without huge duplications and costs. There's also a desire for a central resource and way of developing and sharing best practice. Following the same model of the Clients Assets Technical Committee, TISA will be setting up a closed user group Bulletin Board to share concerns and best practice.

The FATCA Executive Committee will aim to meet monthly in addition to ad hoc meetings to consider registration and communication. The plan is to have HMRC, the Information Commissioner and the FSA present to future meetings, so the FATCA space will be well populated this year. PwC are members of the working group with HMRC and provide input both to and from HMRC.

The IRS is due to finalise its guidance by the end of 2013 in time for implementation, but many were sceptical that the timeline would be met, and that the guidance would be workable. It was noted that Ireland had reached agreement with the US, and that Luxembourg intends to (although what form that may take is hotly debated). One model would suit fund managers but destroy banking secrecy, the other would preserve banking secrecy, and destroy the fund management industry.

Jeffrey Mushens, Technical Director at TISA

THE THEME OF THINGS TO COME

Breaking news this week, the FSA will conduct four thematic reviews in 2013 in an effort to ensure the implementation of the retail distribution review (RDR) is successful. Reviews are set to begin later this month and will focus on professionalism, charging structures, description of advice and non-advised sales.

The FSA supervision team will conduct reviews in three cycles with a different sample of firms each time. At the end of each cycle, it will publish guidance to firms on good and poor practice. It looks like the regulator will collect information through surveys, firm visits, file reviews and, where necessary, mystery shopper exercises. Following a meeting I had with the FSA last week, it is clear some of the finer detail is yet to be clarified, but advisers can expect a check on how they are operating the new rules in practice - 'What kind of business models are firms putting into place; Are they accurately describing their services?; Charging structures: is there evidence that these are in place and that firms are communicating them accurately to clients?'

Be warned, the FSA is looking at 'innovations where the spirit of RDR may not have been appropriately applied', specifically where advisers describe sales as non-advised in order to continue to receive trail commission or because they are not qualified to give advice.

Peter Smith, Head of Distribution Engagement at TISA

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