Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, discusses how the pensions industry may begin to look to annuities in the battle to save effectively for post-retirement.
- Jeffrey Mushens, Technical Director at TISA, provides an update on TISAs recent seminar on EU regulation which highlighted how the UK financial services industry should work with government and regulator to get involved in the debate before regulation is passed in Brussels.
- Peter Smith, Head of Distribution Engagement at TISA, outlines how the DWP are mirroring the FCA in their intention to close the loophole that currently allows consultancy charging in advice for auto-enrolment.

RETIREMENT INCOME – TIME FOR A RE-THINK?

Recent research amongst members of the Institute of Directors highlighted a widespread antipathy to the idea of annuities as a method of providing retirement income, as well as resentment around the current annuity rates on offer. Seen as rigid and inflexible, there was resentment also around having, effectively, to give “your” money to an insurance company, money which then “disappeared” when you died. Poor value was perceived especially for those who died early. Those in income drawdown were resentful of the “punitive” tax charge levied on the remaining fund as it passes down the generations. Drawdown retirees also resented the way in which their income levels are pegged to annuity rates. The annuity “issue” was widespread and loud, much more so than even two years ago, when the survey was first run. It’s clearly a major sticking point for those seeking to build up assets for retirement amongst this group.

Now, we in the industry might make the case in favour of annuities as insurance against living too long and exhausting the pension fund. We might also point to the innovation seen in product development in recent years, with investment linked and temporary annuity structures having been developed, enhancing choice. We might even concur with the Treasury’s view in that the quid-pro-quo of receiving tax relief on pension contributions is that you are required to fix a secure retirement income. We might also point to recent reforms creating Flexible Drawdown, which enable access to the whole pension fund if required, subject to tax and subject also to doing the very thing you probably didn’t want to do, i.e. to buy an annuity to secure £20,000 per annum.

But at a time when it is relatively easy to construct a portfolio of equity income stocks and corporate bonds which would, with reasonable reliability, crank out an income of 5% per annum net of charges, the case for annuities is probably hard to make for this group. There are already commentators in the industry who have suggested that permitted income drawdown levels should be uncoupled from annuity rates altogether, rather being limited to a percentage of the pension fund. This would certainly be clearer and simpler. Whatever we do, it is clear that, for those who know about it, our current approach to retirement income is acting as a drag on pension saving. Time for a re-think?

Malcolm Small, Director of Policy

EU REGULATORY DEBATE GATHERS PACE

The importance of staying abreast of developments in Europe, together with insights into the challenges, was brought into clear perspective at TISA's recent seminar on European Regulatory Developments, where a number of speakers, including FCA and HM Treasury - ears ringing from strong praise in the FT earlier this week about their success in obtaining agreement to a non-discrimination clause - spoke on a range of topics, including tax, outsourcing, implications of IMD2, developments in a European FATCA and timelines for MIFID2 and PRIPS. It was encouraging to see so many of our members wishing to get involved in the EU regulatory debate.

IMD2 might require direct to consumer insurers to check the appropriateness of purchases by consumers as well as require disclosure of commission on general insurance products.

It was interesting to note that Brussels is not a monolith. There are 27 different countries with competing interests to satisfy, and not every Presidency has the resources in its Ministry of Finance to pursue 27 different financial directives in the 6 month duration of a Presidency. So lobbying can work.

A common theme was the willingness and desire of HMT and FCA to work with the City in defending their (and the UK’s) interests in Europe if only they had early warning of what they were. Once regulations are agreed it's too late. It is then 32 months to implementation.

The seminar underscored the importance of engagement with Government and regulators, as well as directly, in influencing the changes planned in Brussels.

Jeffrey Mushens, Technical Director

LOOKING FOR LOOPHOLES

On most country estates there is normally more than one gamekeeper. The concerns around consultancy charging originated at the FSA and continue within the focus of the FCA. However, lurking in the bushes is the DWP (Department for Work and Pensions) with its sights set firmly on ensuring no prime game is taken from the estate without permission.

The DWP looks likely to step in to close the loophole that would allow qualifying auto-enrolment pensions to maintain consultancy charging for members enrolled before the scheme staging date. There are plans afoot for additional legislation to the Pensions Bill 2014 to stop consultancy charging being applied to any scheme member after auto-enrolment. At the present time advisers are able to set up a scheme using consultancy charging which will qualify as an auto-enrolment scheme when the employer reaches their appropriate staging date. The glaring loophole is those early adopter members who join before the staging date could keep paying consultancy charges.

The DWP’s intentions was a charging ban on all schemes set up purely with auto-enrolment capability, or only the section of the scheme dealing with the auto-enrolment demands of new members if they were already established schemes.

The misconception amongst advisers is that they can establish schemes on the old basis which would then still qualify for auto-enrolment. This in effect would mean enrolling members into the scheme before the staging date, therefore incurring consultancy charges.

The proposed addition to the Pensions Bill will stop advisers slipping through the current loophole. Interestingly one scheme provider has announced it will continue to offer consultancy charging on pre-staging date qualifying schemes.

The FCA and DWP are clearly signalling from a policy point of view that advice to the employer is to be paid for by the employer irrespective of auto-enrolment staging dates. Advisers contemplating establishment of auto-enrolment schemes for their clients will need to be mindful of the two gamekeepers and their intentions.

Peter Smith, Head of Distribution Engagement

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