leading on investments and savings

TISAtalk **25th March 2014**

BRAVE NEW WORLD

The Chancellor's budget last week has paved the way for a brave new world of pension's flexibility creating seismic change in pension planning and choice. TISA welcomes broadly the principle changes proposed which seem to fit with the TISA Savings and Investment project currently running across the industry.

In the TISA budget submission, representation was made to bring change to an annuity provision and at retirement choice. We are pleased to see Government has taken notice. Now from April 2015 anyone over 55 will be able to withdraw unlimited sums from their pensions, which will boost the annual incomes of 320,000 people each year. This must make pension savings a lot more attractive in that members of defined contribution and personal pension schemes will be able to cash in their pension plans after the age of 55, with no requirement to buy an annuity. Savers will still be able to take a quarter of their pension tax free, as now, but after that they can withdraw the whole lot, subject to a tax charge levied at the highest marginal rate. For those in defined benefit schemes there is concern should they switch from this structure to defined contribution in order to avoid annuities and the government is consulting further on whether to continue to allow these transfers to take place.

These changes will give savers and consumers greater choice, flexibility and importantly responsibility. Whilst this is to be welcomed and TISA supports the broad principles, there is a concern that if an annuity is not purchased at retirement even the most sensible person could be tempted to spend more pension cash than they planned. They will have no guaranteed income for life which an annuity provides, potentially leading to a generation relying on benefits after their pension pots run dry. The introduction of the single tier state pension, broadly at the same level as means tested benefits, will mean that most people won't be able to come back to the state, cap in hand and demand benefits. The need for detailed advice has never been greater.

In respect of the provision of annuities and those who provide them, three quarters of defined contributions pension savings, some £165 billion, are invested in lifestyle funds, which assume savers will be buying an annuity at retirement. These funds then move gradually into gilts during the 5 or 10 years before retirement, which offer lower returns. Those who no longer plan to buy an annuity may be better off in a different fund. Savers should be wary that those whose original pension contract includes the right to an annuity at a historically high rate, not available in the current market, could lose out. It should be remembered that annuities will not disappear completely and for some savers the annuity option will be absolutely the right choice. For others it will be a mixture of an annuity providing some guarantee together with alternate savings instruments.

One very interesting aspect for the financial services community is the proposal to provide advice at retirement which is free, impartial and available to all and face-to-face. The question is who provides this. The proposal seems to indicate some form of guidance by the providers of annuities, on the assumption that there will be at least some of these still around. However, it will be interesting to see the financial advisors response to this opportunity and how they propose to provide any service to this market if they are advising on just the pension decumulation only. The paper states providers of annuities are to offer this guidance which questions how this can be delivered without compromising impartiality and at what cost.

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