leading on investments and savings

HM TREASURY

CONSULTATION RESPONSE

FREEDOM AND CHOICE IN PENSIONS

June 2014

Introduction

TISA is a not-for-profit membership association operating within the financial services industry.

TISA's membership comprises over 145 member firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including banks, stockbrokers, asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers and pension providers.

What makes TISA unique is that its membership covers the entire industry, incorporating cross sector policy, industry and technical expertise. Whilst we maintain a solid partnership with government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects, which improves industry performance and puts us in the unique position of being able to constantly challenge the status quo to bring about material improvement. At the forefront in all of our recommendations and actions is to consider national and consumer outcomes.

RESPONSE TO CONSULTATION

TISA welcomes the Government's proposals. We believe the instinct to trust people with their own money is a good one, and we are enthusiastic about working with the Government and other interested parties in ensuring that the proposals work for savers and the national interest.

We believe that the proposed guidance should be impartial, and that this is best provided by parties independent of the product providers.

We have established an industry group, comprising firms that provide pensions, advisers, asset managers and bodies such as MAS, to look at ways the Government's guidance guarantee can be delivered to potential pensioners by the start date of April 2015.

This date is very challenging, but, in our view, achievable. It will require an integrated response from Government and FCA, as well as the industry. We are very keen to play a full part in ensuring that this date is met.

This guidance can help increase the engagement of people saving for retirement, not just at the point of retirement, but throughout their working lives, as it could provide a template for providers to talk to savers about their future options. This emphasises the importance of getting the guidance right.

We do not believe that the Government should impose any additional burdens on existing members of defined benefit schemes exercising their right to transfer out to take advantage of the new freedoms outlined by the Chancellor.

We are not convinced that there is any need to increase the age at which benefits can be accessed in line with increases in the State Retirement Age.

RESPONSE TO QUESTIONS

A new tax framework for retirement (Chapter 3)

A.1 The government welcomes views on its proposed approach to reforming the pensions tax framework.

1. Should a statutory override be put in place to ensure that pension scheme rules do not prevent individuals from taking advantage of increased flexibility?

TISA believes that every member of a defined contribution pension should have the ability to access their pension savings flexibly. A statutory override would ensure that this is the case. However, we are aware that some employers operating schemes themselves do not want to become akin to a bank account, whereby they are holding money for retired ex-employees who draw down lump sums from time to time. As such, provided there are no barriers in scheme rules, which prevent a member from transferring out without penalty (to access flexibility in another product) then a statutory over-ride may not be necessary. Therefore, the Government might wish to consider an obligation on schemes to permit transfers out without penalty.

2. How could the government design the new system such that it enables innovation in the retirement income market?

The market started to innovate immediately following the reforms being announced and will continue to do so for competitive advantage and consequently deliver better choice for consumers. Government intervention is not necessary to create innovation.

3. Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?

We are not convinced of the merits of raising the age at which private pension wealth may be accessed.

4. Should the change in the minimum pension age be applied to all pension schemes which qualify for tax relief?

Yes, except for those who have a protected pension age.

5. Should the minimum pension age be increased further, for example so that it is five years below State Pension Age?

No. Allowing individuals to access pensions wealth earlier could act as a deterrent for those who may otherwise look to liberate their funds. Furthermore, earlier access may encourage a greater level of saving.

Supporting choice (Chapter 4)

A.2 The government welcomes views on its proposed approach to supporting consumers in making retirement choices.

6. Is the prescription of standards enough to ensure the impartiality of guidance delivered by the pension provider? Should pension providers be required to outsource delivery of independent guidance to a trusted third party?

No. TISA strongly believe that whilst providers have a role to play in helping to educate consumers in relation to financial matters and provide pre-retirement guidance material, they should not be involved in the delivery of the at-retirement guidance.

7. Should there be any difference between the requirements to offer guidance placed on contract-based pension providers and trust-based pension schemes?

No.

8. What more can be done to ensure that guidance is available at key decision points during retirement?

We recognise that retirement has changed and is no longer a one time event – individuals are increasingly phasing into (and out of) retirement, taking up part-time work after a period of not working. As such, their income requirements change. It is therefore essential that individuals have access to guidance at the time they most need it – which could be some time after having left their career and 'retired'.

This is something that is being considered within TISA's 'Retirement Guidance working group referred to above. This group will work to model a structure for the delivery of the guidance.

Defined benefit schemes (Chapter 5)

A.3 The government would welcome views on the options outlined in point 5.15, including their likely complexity, and the burdens they might place on scheme sponsors and HMRC.

9. Should the government continue to allow private sector defined benefit to defined contribution transfers and if so, in which circumstances?

Yes.

Transfers from private sector defined benefit (DB) schemes to defined contribution (DC) schemes should continue to be allowed. To restrict such transfers goes against the principles of the reforms to allow greater choice and flexibility. Furthermore, we do not feel that such transfers should only be allowed where regulated financial advice has been sought, as suggested by some commentators.

10. How should the government assess the risks associated with allowing private sector defined benefit schemes to transfer to defined contribution under the proposed tax system?

It must be recognised that within the total population of DB members a significant number are in receipt of a pension so the investments (gilts, bonds etc) underpinning their pension is not going to go anywhere. Furthermore, it is generally understood by members who are fortunate enough to be in a DB scheme that they have a valuable pension scheme. We therefore believe that the level of demand for transfers and therefore the impact on the orderly operation of the markets will be low.

Financial markets and investment (Chapter 6)

A.4 The government would welcome views on any potential impact of the government's proposals on investment and financial markets.

See our comments in response to question 10 above.