PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

ADVISING ON PENSION TRANSFERS

SEPTEMBER 2017

A PLSA RESPONSE TO FCA CONSULTATION CP17/16

CONTENTS

ABOUT THE PLSA

We are the Pensions and Lifetime Savings Association; the national association with a ninety-year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to help people get a better understanding of how to save for the future.

THE PLSA'S APPROACH TO ADVICE ON DB TRANSFERS

The combination of pension freedom and high transfer values boosted by low interest rates has increased interest in transferring out of Defined Benefit pension schemes into Defined Contribution (DC) arrangements.[1]

A further spur to activity in this area has been the increase in pension scams. Although many people are presented with transfer options quite legitimately, scammers are also using DB transfers to part people from some or all of their hard-won retirement savings.

In these circumstances, the FCA is right to ask whether the current advice requirements are still fit for purpose.

- The PLSA's starting point is that DB pensions provide valuable benefits that should not be given up lightly. For most people, staying in the DB scheme will be the best course of action.

- The PLSA agrees with the FCA's argument that advice should be more broadly based. It is vital that members consider their DB rights in the context of their overall circumstances, including their other assets, debts, health, family circumstances and employer covenant.

- However, there is a risk that the proposed new Transfer Value Comparison (TVC), which would focus the member's attention on a single set of figures, could inadvertently lead to people taking decisions which are, in fact, quite narrowly based.

- Combined with the high transfer values generated by current low interest rates,, this could lead to more people transferring. The TVC should be used with caution – and should be presented in the context of the full range of factors that scheme members need to consider.

- There is a case for a fast-track 'triage' process for people with very simple cases (eg no other assets), for whom it is obvious that they should stay in their DB scheme.

- The FCA's proposals are based on the notion that people should take a one-off retirement planning decision based on a single set of advice – with the result determining their financial circumstances for the rest of their days. The PLSA is concerned that this approach is outdated in a world of drawdown and increased longevity.

[1] Research by Origo in May 2017 found that, of 16 leading third-party administrators and employee benefit consultants, the larger firms reported increases of 35-100% in requests for transfer quotations and 20-82% in actual payments made. The Pensions Regulator has stated that 80,000 transfers from DB to DC schemes were paid between 31 Mach 2016 and 1 April 2017

ANSWERS TO CONSULTATION QUESTIONS

Q1: Do you agree with our proposal to require all advice on the conversion or transfer of safeguarded benefits to be a personal recommendation? Please provide the reasons for your response.

The PLSA agrees that advice should always include a personalised recommendation. The FCA is correct that advice should reflect the member's individual circumstances.

The FCA should be mindful that the retirement market is changing and will change rapidly as the pension freedoms bed in. It is important that the rules drafted in this context retain consistency both with new technological developments – such as the pensions dashboard and, potentially, robo-advice.

It is also important that the new rules retain consistency with potential changes to the at-retirement choice architecture. In our response to the interim report of the Retirement Outcomes Review, the PLSA recently re-stated the case for a 'soft-default' at retirement . Under this mechanism, trustees (and potentially IGCs) would be able to signpost savers to a suitable retirement income product. Decisions taken about advice at retirement need to be taken with one eye on the current framework and one eye on the future.

There is also a role for a fast-track 'triage' process for people with very simple cases, such as no other assets, where the outcome of an expensive advised process might easily be anticipated.

Q2: Do you agree with our proposals for new guidance on assessing suitability? If not, what guidance do you think would be helpful?

The PLSA agrees with the proposed new approach to assessing suitability.

Although there has been extensive media coverage of the FCA's proposed shift away from the starting assumption that a transfer will be unsuitable, the change is actually quite limited: the FCA has moved from a belief that, *for a given individual*, the best course is to stay in DB, to a belief that, *for most people*, it is better to stay in DB.

The revised approach will still lead to the same advice for the vast majority of people.

Q3: Do you agree with our proposals to add guidance to the Handbook to clarify what a pension transfer specialist is expected to do when checking advice on transfers or conversion of safeguarded benefits?

The PLSA supports the proposed change. It clearly makes sense that the pensions transfer specialist should check that the outcome of the advice would be reasonable, rather than simply checking that the calculations were accurate.

Q4: What are your views on how the current qualification requirements for pension transfer specialists operate in practice?

We understand the FCA's wish to ensure that pension transfer specialists have the full range of skills required, but this 'catch-all' system might not be the best approach.

Some cases will be more complex – or simply higher in value – than others, so it might be sensible to have a system whereby the qualifications and experience required from advisers increase according to the complexity of the case in question.

Q5: Do you have any comments on our explanation of the responsibilities of advice firms and pension transfer specialists?

No response.

Q6: Do you have any comments on our explanation of the responsibilities of advice firms and independent pension transfer firms?

No response.

Q7: Do you agree with our proposals on the introduction of an appropriate pension transfer analysis? If not, how could we amend it?

The PLSA supports this broader-based approach to advice. It is vital that members consider their DB rights in the context of their overall circumstances.

Q8: Do you agree with our proposals on preparing and presenting the client with a mandatory transfer value comparator within the appropriate pension analysis? If not, how could we amend it?

The 'TVC' is a laudable attempt to present the choice between transferring and not transferring in simple terms, but it only tells members part of their story, so risks being misleading. The FCA's proposals require that advice should also reflect many other factors, such as other assets, debts, health, family circumstances and employer covenant, but there is a risk that attention will focus much more on the TVC and less on these other issues.

It is essential, therefore, that the context in which the TVC is presented makes it clear that it is just one factor for the member to consider – not the central issue.

Members should also take account of the certainty provided by staying in the DB scheme.

With current low interest rates generating high transfer values, the TVC is likely to present attractive–looking transfer values that are higher than the replacement cost of the DB pension. So, by focussing the member's attention on this simple set of figures, the TVC could inadvertently lead to *more* people transferring. It should be used with caution.

The TVC is based on the concept of an annuity. But most people are not opting for annuities. Drawdown is more popular. A case could be made for the TVC also giving figures based on drawdown, although that would complicate it and undermine its purpose.

Q9: Do you agree with the proposed changes to the assumptions for the rolling annuity interest rate, non-annuity mortality, the growth rate and the inclusion of charges?

The proposal looks sensible. However, it will be important to prevent 'gaming' - for example, schemes changing the rates they offer on a day-to-day basis when yields are increasing and transfer values falling, but only changing them quarterly (or even less frequently) when the market moves the other way. There should be equivalence of sensitivity as rates move up and down.

Q10: What are your views on the use of stochastic tools within appropriate pension transfer analysis? How could the outcomes be presented in a way which results in good consumer understanding, given the format and outcomes presented in other mandated documents?

No response.

Q11: Do you have any comments on our explanation of the responsibilities of advice firms in relation to software?

No response.

Q12: Do you have any views on the assumptions for CPI and for benefits with caps and collars?

The assumptions are perhaps too simplistic. Most DB schemes will have multiple periods of revaluation at different levels and a certain percentage may have both RPI and CPI-linked benefits .

Q13: Do you agree with our proposal for the application of the additional requirements for pension opt-outs to be restricted to opt-outs where there are potential safeguarded benefits available?

This seems a sensible approach.

Q14: Do you agree with our proposal that the new TVC analysis should not be required for any pension opt-outs?

Yes, this seems a sensible approach.

Q15: Do you have any thoughts on the impact of these proposals on overseas transfers?

Overseas transfers have been a key channel for scammers and the PLSA has been pressing for tighter controls in this area for some while.

Our own research shows that 48 per cent of workplace pension schemes that had blocked transfer requests had received requests for transfers to QROPS, with Malta the most frequently mentioned destination.[2]

The new 25% tax charge on transfers to QROPS, announced as part of the Budget on 8 March 2017, should go a long way towards reducing abuse, although the PLSA has raised concerns about how practical it will be for trustees to make the required new check that a member is actually resident in the country to which they are transferring the pension.

[2] PLSA member survey, October / November 2016, based on a sample of 76 respondents.

The PLSA agrees with the consultation paper's analysis – that the new Appropriate Pension Transfer Analysis (APTA) will most likely make advising on overseas transfers more complex than advising on those within the UK. However, given the high scams risk present in overseas transfers, the PLSA sees this new 'grit in the system' as a useful step towards increasing protection for savers.

Q16: Do you have any comments on our expectations for the provision of streamlined advice when advising on safeguarded benefits?

The PLSA believes there is a case for a fast-track 'triage' process for people with very simple cases (eg no other assets), for whom it is obvious that they should stay in their DB scheme.

The approach outlined in the consultation paper looks like it would allow this approach, given that – for clients of this kind – it should be relatively quick and easy to 'consider a client's wider objectives in retirement and the means available to help them meet those objectives'.

We strongly support the comments made in the consultation paper about ensuring advice is affordable. Ensuring people with relatively 'simple' circumstances get advice that they can afford, rather than not be advised at all, will be essential if we are to protect people from scams and help them make the most of their savings. However, much will depend on how the FCA goes about policing this advice. The FCA's approach will need to be proportionate.

Q17: Do you have any comments on our cost benefit analysis?

None.