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Freedom and Choice in Pensions Consultation
Pensions and Savings Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

By email (only) to: Consultation2014@hmtreasury.gsi.gov.uk

11 June 2014

Dear Sir or Madam

Freedom and Choice in Pensions Consultation

We are writing in response to the Freedom and Choice in Pensions Consultation (Cm 8835 of March 2014).

The Association of Professional Pension Trustees is an organisation of over 120 individuals who act as professional independent trustees to UK occupational schemes, some as sole practitioners and some working in firms of such practitioners. Our members represent a large number of mainly larger pension funds with combined assets of several hundred billion pounds.

Our aims are to:

- encourage and promote the highest professional standards in those who practise as professional pension trustees
- promote the role of professional trustees

We have decided to respond specifically on Questions 6 - 10.

In preparing our response to this consultation, we conducted a survey of our members in order to establish consensus amongst professional trustees.

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?

We split this question into three parts for our survey. Responses were as follows:

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Is the prescription of standards enough to ensure the impartiality of guidance delivered by the pension provider?

	No. of responses	Percentage
Yes	7	50.0%
No	7	50.0%

Comments included the following:

Guidance/regulation will never guarantee the impartiality. Instead the regulation/guidance will further exacerbate the problem where more advisers get bogged down in bureaucracy and fail to see the bigger picture which is to provide GOOD advice. Effort should be directed towards providing the advice and not with compliance.

The major issue is who will be responsible for the delivery of the 'guidance' and how will the costs of that guidance be met. There is a tension between the application of guidance and formal 'advice' - one will lead to the other in many instances.

Should commercial pension providers be required to outsource delivery of independent guidance to a trusted third party?

	No. of responses	Percentage
Yes	10	71.4%
No	4	28.6%

Who do you believe would be suitable as a 'trusted third party?' Select all that apply

	No. of responses	Percentage
Money Advice Service	5	35.7%
Citizens' Advice Bureaux	4	28.6%
TPAS	9	64.3%
Nominated IFA firm	7	50.0%
In-house pensions team	4	28.6%
Other (state below)	4	28.6%

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We consider that all members should have the benefit of generic written guidance on the lines of the successful Scorpion series. Those that want and need more personal guidance, having taken on board the written material, will need to seek it at a cost which could be met out of their accumulated funds. In practice, that advice will have to be regulated and monitored for consistent quality and value for money. That done it could be deliverable by any appropriate regulated provider.

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

	No. of responses	Percentage
Yes	1	7.1%
No	13	92.9%

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

Our survey responses were as follows:

	No. of responses	Percentage
Access to workplace seminars from reputable independent organisations from age 50 onwards	8	61.5%
Education about financial services to be included in the school curriculum	6	46.2%
Individual Financial Advice via the workplace which is not treated as a benefit in kind	5	38.5%

The literature described above needs to emphasise the need to consider retirement provision and reconsider potential provision as personal circumstances change by for example bereavement, divorce and inheritance. It is not realistic to remind savers reliably as when they will need to take advice – but it may be realistic to help them take responsibility for their own decisions and planning.

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?

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We asked two questions. The responses were as follows:

In view of the new tax regime for DC pension schemes, should the Government continue to permit transfers from private sector Defined Benefit to Defined Contribution schemes?

	No. of responses	Percentage
Yes	12	92.3%
No	1	7.7%

Under what circumstances should private sector DB to DC transfers be permitted? Select all that apply?

	No. of responses	Percentage
There should be no restriction	10	83.3%
Pension sharing on divorce	0	0.0%
There should be a minimum threshold	0	0.0%
Enhanced transfer value exercises	0	0.0%
To avoid having benefits reduced as a result of the scheme's falling into the PPF	1	8.3%
Overseas transfers	0	0.0%

Response:

- Legislating to remove the right of all members of defined benefit schemes to transfer to a defined contribution scheme, except in exceptional circumstances, as proposed with public service defined benefit schemes. This must be the government's starting point, unless the issues and risks around other options can be shown to be manageable.

  We do not believe that such a change is fair, appropriate or necessary. There are serious hurdles to be overcome before such a transfer can be made. They work effectively and should continue to do so.

  We do, however, see the attraction in exceptional circumstances of allowing Trustees to restrict or remove the right in the interests of members generally.

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- Continuing to allow members of defined benefit schemes to transfer to defined contribution, as now, but requiring that any funds which have been transferred are ring-fenced by the receiving pension scheme and subject to the existing tax framework for defined contribution. This option preserves but does not extend existing flexibilities within the pension system, and therefore presents no additional economic risks; however it may introduce additional complexity and burdens on scheme sponsors and HMRC, and the government would welcome views on this point.

  Response: This creates yet more in costs and complexity. The history of schemes is littered with "solutions" of this type e.g. GMP's, anti-franking which introduce excessive and near unworkable complexity.

- Placing a cap on the amount that people in defined benefit schemes can transfer to defined contribution schemes each year.

Response: Again, unnecessary complexity.

- Continuing to allow transfers, but requiring that any transfer to a defined contribution scheme must be approved by the defined benefit scheme trustees before it can be made

  Response: The only reason not to approve should be when the trustees deem the payment of transfers generally to be contrary to the interests of members as a whole.

- Leaving in place the existing flexibility for members of private sector defined benefit pension schemes to switch to defined contribution schemes, thereby effectively extending to them the full flexibilities described elsewhere in this document. The government is open to this option, given its attractions in principle, but only if it is clear that this would not create significant risks for the UK economy.

Response: We support this option.

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?

Response: It has sought opinion widely and should listen to the responses received and weigh them carefully and open mindedly.

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.

Response: In the long term savers will need to provide for themselves in retirement much as before and the changes will have we suspect a relatively marginal impact on the effect of that activity as a whole. We do not however claim any expertise I the prediction of the macro-economic implications.

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If it might be helpful to discuss any aspect of this letter then please do not hesitate to contact me (my direct line is 020 7696 5277 and my email address is rodney.jagelman@lawdeb.co.uk).

Kind regards

Rodney Jagelman

Rodney Jagelman
Chairman, Association of Professional Pension Trustees