

Financial Conduct Authority (FCA)
Retirement Outcomes Review: Investment pathways and other proposed
changes to our rules and guidance
Consultation Paper, CP 19/5
Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

- 1.1 This response has a narrow focus. It is intended to offer the benefit of our experience in dealing with low-income, unrepresented taxpayers and our observations about the challenges they face when making pension decisions.
- 1.2 We make some general comments stressing that it is essential for people to be provided with clear guidance, in a consistent format and at the right time. We therefore support the proposed changes in the rules in CP 19/5 that aim to achieve this by mandating the use of standard wording and the provision of information at key points.
- 1.3 We recommend that providers could, at the same time, be mandated to provide some standard guidance on tax issues which might be relevant to their customers. By introducing the proposed four investment pathway ‘options’, the FCA is enabling pension providers to gather a key piece of information about the investor’s plans for use of their pension funds for the next five years. This presents a good opportunity to provide the investor with a partially tailored list of prompts as to tax and state benefits implications of their pension choices over that period. We would be happy to meet to discuss this idea further.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Introduction

3.1 *Our interest in this consultation*

- 3.1.1 We welcome the opportunity to continue to contribute to the series of consultations on the Retirement Outcomes Review.¹ Our previous responses made comments relating to the broad principles under proposal and we note that some of our ideas have been reflected in subsequent developments.
- 3.1.2 When dealing with pensions matters, for example in our website guidance,² it is often difficult to separate tax issues from the broader picture and, indeed, advice on investment choices is often influenced by the tax consequences of an individual's decisions. Therefore, when looking to make pensions decisions that have tax (or benefits entitlement) consequences for the individual, holistic advice is needed. Our work involves dealing with some of the visitors to LITRG's various websites³ who send us pensions enquiries and liaising

¹ See our previous responses: <https://www.litrg.org.uk/latest-news/submissions/180807-retirement-outcomes-review-proposed-changes-fca-rules-and-guidance> and <https://www.litrg.org.uk/latest-news/submissions/180831-retirement-outcomes-review-proposed-changes-fca-rules-and-guidance-%E2%80%93>

² www.litrg.org.uk

³ Almost 5 million users came to LITRG's websites in 2018.

with the two tax charities, TaxAid¹ and Tax Help for Older People,² who work more directly with the public. From this we have seen how people struggle to negotiate the maze of information and advice on both tax and investment matters.

- 3.1.3 However, we are not qualified investment advisers and must therefore limit our contribution to consultation paper 19/5 to issues within our professional expertise – namely, tax and interactions with welfare benefits.
- 3.1.4 We have done so firstly by pointing out some broad principles (see section 4) from our experience in liaising with low-income, unrepresented taxpayers facing pensions choices, and secondly by answering only those individual questions where we have points to make relevant to our tax and related benefits expertise (see sections 5 and 6).

4 Clear, simple, consistent guidance

- 4.1 Low-income, unrepresented consumers require clear and simple guidance on their pensions, delivered at the right time. This principle applies just as much to the labelling of investment pathways solutions as it does to the tax consequences of pensions choices. We therefore broadly agree that the proposed rules are right in that they seek to deliver appropriate guidance at the right time.
- 4.2 The tax system of course relies on percentages in terms of calculating liability. One point we would make is that our experience in dealing with low-income, unrepresented people in relation to their tax affairs is that they often have a poor grasp of percentages. While not a tax matter *per se*, we would point out that such lack of understanding and general issues of poor literacy and/or numeracy apply equally to people's ability to understand their pension savings. Therefore, pensions information, for example investment growth or charges, needs to be translated into clear monetary terms rather than simply be expressed as a percentage.
- 4.3 We are particularly keen that people should get appropriate tax advice (or, as a minimum, be directed to appropriate guidance) as and when making pensions decisions. Those failing to do so can pay a heavy price.³ We expand on this point further in section 5 below.

¹ See www.taxaid.org.uk

² See www.taxvol.org.uk

³ For example, this enquiry in February 2019 to our website illustrates the point: "I have received a tax bill for £2,517 which I cannot pay. It is for high income tax on child benefit... I took my pension... which pushed my total income just above £60,000. The money was spent on essential home improvements... we have 3 children to support.... We feel this is very unfair as all other years our income is well below the threshold for the high income tax. My wife does not even have a permanent job. Please help as we don't know what to do... HMRC won't even arrange a payment plan and want the full amount in 3 weeks."

- 4.4 Another key point in this context is **consistency** of documentation. If, as is almost inevitable, a person has multiple pension pots,¹ they need to receive information (be that in paper format, or online) that is presented in the same way. Otherwise, it makes it impossible to compare like with like, particularly for those who have had little previous engagement with their pension savings (the vast majority of people, in our experience).
- 4.5 All of the above is also of course central to the development of the pensions dashboard (or dashboards),² of which there is no mention in consultation paper 19/5. While we appreciate this is not up and running, its development and launch in due course might provide a further useful channel for people to be provided with appropriate information and prompts at the right time.

5 Q3 – Do you agree with our proposed 4 objectives, and mandating all providers to use our prescribed wording when presenting these objectives?

5.1 *Prescribed wording*

- 5.1.1 Taking the second part of the question first, yes, it is clearly sensible to standardise the wording, not only to make comparison across providers easier, but also to ensure accurate description of the objectives. See our general comments at para 4.3 on consistency.

5.2 *An opportunity for partially tailored tax and state benefits guidance, not just to decide investment pathways*

- 5.2.1 The four objectives proposed seem sensible in terms of keeping matters simple (as per our general comments in section 4 above). Also, the prompt for people to make a choice based around what they intend to do in the next five years would seem to be sensible. From our experience in dealing with low-income, unrepresented taxpayers over the last 20 years, we think that it is likely to be difficult for people to think any further ahead than five years – particularly as people’s circumstances might be unsettled at the low-income end of the population.
- 5.2.2 However, what particularly interests us in the presentation of these four objectives is that they could give some extremely valuable insight into the individual’s plans – even if only in broad terms. This could therefore be a trigger point not only to help consumers with an investment pathway (and therefore appropriate structuring of what their pension pot

¹ With figures showing that an average person might have 11 jobs in their working life (see for example: <https://www.gov.uk/government/news/thousands-more-make-contact-with-long-lost-funds>), it is no great leap to deduce that they will end up with pension pot numbers into double digits.

² See also our response to ‘Pensions Dashboards – Working together for the consumer’, January 2019: <https://www.litrg.org.uk/latest-news/submissions/190122-pensions-dashboards-%E2%80%93-working-together-consumer>

continues to be held in), but also to direct them to appropriate sources of guidance on what the tax and state benefits consequences of their pension choices in coming years might be.

5.2.3 As stated at para 6.19 of CP 19/5, it is intended that the four objectives will be:

- Option 1: I have no plans to touch my money in the next 5 years
- Option 2: I plan to use my money to set up a guaranteed income (annuity) within the next 5 years
- Option 3: I plan to start taking my money as a long-term income within the next 5 years
- Option 4: I plan to take out all my money within the next 5 years

5.2.4 In terms of offering tax and state benefits guidance, knowing which of the above boxes a person has ticked is a good opportunity to give them some broad guidance about what they might need to think about as a result.

5.2.5 Our experience is that people are far more likely to engage with information that is **relevant** to their situation. Some standard guidance could therefore be sent to consumers at the point they choose one of the above, based around their choice. For example, if someone selects option 4, it would be worth pointing out to them that, depending on their other income, taking their whole pension savings out within five years could be inefficient in tax terms. Similarly, their choice might have an impact on state benefits entitlement.

5.2.6 The point of this would not be to give people advice or even to cover all possibilities, but we think this opportunity to get people to think about the tax and state benefits consequences of their pension choices should not be missed. Even if it only serves to plant the seed in their mind that there are potential consequences, so that next time they come to make a pension choice they might think about tax and state benefits, it would be worth doing.

5.2.7 We therefore recommend that the guidance mandates not only the wording of the objectives, but also that it mandates providing the consumer with some indicative guidance of tax and state benefits points to consider in relation to their specified objectives. Some standard wording could be agreed with interested stakeholders such as us, working alongside the Single Financial Guidance Body (named the Money and Pensions Service from 6 April 2019). We would be pleased to discuss this further.

6 Q11 – Do you agree with our proposed approach for ongoing information to consumers using investment pathways? Do we go far enough, or is there anything further that providers could do to ensure that consumers carefully consider their investment choice on a periodic basis?

6.1 We agree that it is helpful to prompt investors to review their investment decisions on a regular basis. Following on from our comments under section 5 above, a prompt to do so at the five-year point would also give a further opportunity to prompt people to think about how their personal situation might have changed, including their tax position, and whether that might influence current and future pension choices.

- 6.2 As noted at 4.5 above, providers could help people to engage with their pensions generally by assisting with the development of pensions dashboards. While the primary aim of a dashboard on initial development might be to engage people with their pensions at accumulation stage, we would hope that it will have some functionality at the decumulation stage. This might therefore be another means for people to be prompted to think on a periodic basis about their pensions investment choices, and also related issues such as the tax and state benefits consequences of their decisions.

LITRG
26 March 2019