Low Incomes
Tax Reform
Group
A voice for the unrepresented

Money Advice Service: Proposal for a retirement advisory directory
Response from the Low Incomes Tax Reform Group (LITRG)

1 General comments

1.1 The LITRG welcomes any attempt to create an unbiased and transparent system for identifying and guaranteeing appropriate guidance for those about to retire under the proposed new rules for 2015 onwards. However, we are disappointed that the response to the 2014 Budget from the Money Advice Service (MAS) seems to offer no commitment to retirees by way of an 'easy-to-access, free-of-charge best practice guide'. This we think is a requirement in order to fulfil the government's promise in the 2014 Budget, namely:

> "**1.160** The government recognises that under the new system it will be important that people are equipped to make decisions that best suit their personal circumstances. The Budget therefore announces that **the government will introduce a new guarantee that everyone who retires with a defined contribution pension will be offered free and impartial face-to-face guidance on their choices at the point of retirement**. This will take effect from April 2015. To deliver this, the government will introduce a new duty on pension providers and trust-based pension schemes to offer this guidance guarantee. The government will make available up to £20m over the next 2 years to develop this initiative."

1.2 The MAS, despite being a free service to the public, does not appear to have considered that publishing a directory of fee-charging financial advisers in standardised and easily-comparable format, however useful to those who can afford to pay for services, does not actually meet the needs outlined in paragraphs 3.3 and 3.4 of their own consultation paper.

1.3 Paragraph 3.4 begins:

> "The new guidance service proposed in the 2014 Budget will be there to help consumers face these choices and to explain the options available. Guidance will

CHARTERED INSTITUTE OF TAXATION
1st Floor, Artillery House, 11-19 Artillery Row,
London, SW1P 1RT

REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
Fax: +44 (0)20 7340 0559
E-mail: litrg@ciot.org.uk
www.litrg.org.uk

UK REPRESENTATIVE BODY ON THE
CONFEDERATION FISCALE EUROPEENNE

> provide that crucial first step to take a consumer through the options available and provide information and help about those options."

1.4 However the continuation seems to assume that this is inadequate for the consumer to make a decision about those options, because the paragraph goes on to say:

> "Regulated financial advice will be required by many individuals if their chosen option is to:
> buy an annuity
> enter a drawdown arrangement
> withdraw and invest the pension pot or
> leave funds invested with existing provider
> a combination of all four."

1.5 It is not clear what other options may also be available, which makes for an incomplete list.

1.6 The production of a new and independent directory of IFAs is therefore unconnected with the Budget announcement and promised free guidance, and merely acts as a preparatory guide to getting "proper" advice at a cost, so it is only of use to those who can afford it.

1.7 The MAS appear to be taking the opportunity afforded by the proposed pension reforms to promote an independent directory of advisers; and while we would encourage the publication of a guide to paid advisory professionals, we are not convinced that this is the right context in which to disseminate it. Such a guide would only assist those who can afford the service it promotes, and those who cannot would be left behind.

1.8 The Directory would undoubtedly enable more sophisticated users to discover local, regulated advisers and provide standardised details of their fees and expertise. It is, however, questionable whether the average individual with little or no financial awareness and a small pension pot will have an understanding of what is meant by a 'Certificate of Financial Planning' or have the spare cash to pay the IFA's fees. Nor would such a Directory help fulfil the Chancellor's pledge of free, face-to-face "guidance" at the point of retirement (or later). This would require the listed firms to indicate that they would offer a pro bono service for these circumstances, and a commitment from the sector to sign-up to such a requirement is unlikely.

1.9 Our interest in this area is in seeing that there is fairness, consistency and simplicity of taxation, especially for the unrepresented and those on modest incomes, and we would not presume to express views on matters outside our remit and sphere of knowledge. Nevertheless tax is implicit in all financial products, whether at a zero or 45% rate, and must be taken into consideration by advisers and clients when determining suitable investments, annuities, drawdown or other vehicles for converting pension pots into assets or income.[1]

1.10 There is, therefore, a need for retirement advisers to have a full and current knowledge of tax as it affects the retired and the products on which they advise. To the best of our knowledge this is only a requirement for accreditation with the Society of Later Life Advisers (SOLLA) and it is an uncertain quality among other IFAs. We quote, by way of example, a client of the tax charity Tax Help for Older People who was rushed into taking a trivial

[1] The range of tax bands affecting the decisions can include 0, 10,18, 20, 22.5, 27.5, 28, 30, 40, 45, 55 and 60%.

commutation by an IFA, doubtless in order to invest the proceeds in some product he was selling, when the client could have saved £1,400 in tax had he waited until the following April to effect the commutation. Advice without the full facts including the tax implications is incomplete and possibly inaccurate and detrimental for a retiree too.

1.11 As noted above, taxation is an integral part of financial advice and the absence of the word "tax" in the entire paper suggests that there would be no guarantee that an IFA had taken tax into consideration in their recommendations. Thus even if a consumer did advance to paying for financial advice from someone or rather a firm recommended in the directory, there will still be no assurance that best or even good advice will be given. Nor is there any guarantee that all qualifying firms will be listed. Some of the bigger ones may well not feel the need for inclusion.

2 Specific questions

2.1 For completeness we offer answers to:

2.1.1 Q2: Yes, from the point of view of taxation, the post-retirement population is a specialist area with more complex tax affairs while they are alive and have particular tax issues at bereavement or going into care. Consideration, however, has to be given to how the specialisms are tested to ensure high quality. A firm arranging a large number of equity release plans may merely have a good sales manager and a link to an equity release provider. This does not necessarily make them expert advisers. Constant monitoring, perhaps annually, would come at a cost, probably ultimately to the consumer.

2.1.2 Q6: Yes, as mentioned frequently in the text, the information should make it clear whether the individual or the firm have any tax expertise or knowledge.

2.2 Other questions posed we see as being out of our remit.

3 About Us

3.1 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.

3.2 LITRG works extensively with HM Revenue & Customs 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.

3.3 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.