Low Incomes
Tax Reform
Group
A voice for the unrepresented

Introducing a Pensions Advice Allowance
Response by the Low Incomes Tax Reform Group (LITRG)

1 We welcome the opportunity to respond to the consultation paper on Introducing a Pensions Advice Allowance (PAA) to encourage and enable people to access funds from their pension pot for the purpose of paying for independent advice on their retirement planning. Although our remit and professional expertise is directed towards the tax problems and needs of those on low incomes and we do not presume to offer financial advice, nevertheless tax is an inseparable part of financial planning whether it be income taxes, capital gains or inheritance tax, or indeed the relative advantages of ISAs versus pensions, income drawdown versus annuities and the uses of Uncrystallised Funds Pension Lump Sums (UFPLS). In all these areas of retirement, tax is an integral part of any decisions and we therefore feel it is right that we should comment from the point of view of our constituency, those on low incomes.

2 About Us

2.1 The 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 Executive summary

3.1 While recognising that sound, professional advice is most desirable for savers wondering how to crystallise their pension pots and make the best possible provision for income to support the rest of their life after work, we do not consider that the proposed £500 is anywhere near adequate to meet the probable fees of an IFA or other qualified adviser for full and proper advice. Anything less, such as Pension Wise guidance or automated advice, is wholly inappropriate for those on lower incomes to make lifetime decisions in an area in which the significant majority have no experience or expertise.

3.2 We recommend

- that the upper limit be raised to at least £1,000 or a maximum of 5% of an individual pot
- furthermore, that provision is made for the limit to be regularly reviewed and uprated to ensure that it continues to be a realistic figure as compared to changes in the cost of advice (we suggest it is reviewed at least every three years)
- that interaction with means-tested benefits legislation is considered and addressed as appropriate – i.e. that it is clear that any pension withdrawal under the PAA is not to be considered income for means-tested benefits purposes
- that savers should be given two bites at the cherry, one at least 10 years before permitted pension age in order to give savers sufficient time to take steps to improve their pension position, and again at point of crystallisation
- that adequate advice on the impact on benefits should be included, especially in view of the increasing number of auto-enrolled pension savers who may amass only small pots
- that only qualified and regulated advisers should be able to draw the PAA from providers to maximise the value of advice given and minimise fraud and scamming
- that the pensions industry be required to issue standardised notices about the availability of the PAA facility at the appropriate dates and the proposed new Public Financial Guidance service should promote knowledge and awareness at all stages of its pensions guidance
- that the Government might consider a penalty-free Lifetime ISA withdrawal analogous to the PAA, if savers have chosen to provide for their retirement in that scheme instead of, or in addition to, a traditional pension.

4 General

4.1 As the Financial Advice Market Review (FAMR) points out *passim,* there are a number of obstacles to a large proportion of the population seeking professional financial advice including nervousness, mistrust, disengagement from professional advisers and not least, cost. Recognising this factor, the attempt has been made to provide generic guidance via Pension Wise face-to-face, by telephone to The Pensions Advisory Service and online. Such guidance, however, cannot be other than provision of information and generalised suggestions. It is in no way a substitute for personalised – and regulated – advice.

4.2 The proposals in this consultation are therefore a positive step towards removing at least one barrier to more people seeking professional advice on their retirement planning but, we fear, an inadequate one in the face of the likely fees for a realistic and useful meeting with an IFA. £500 would scarcely buy two or three hours of a regulated adviser's time which might serve to advise on a single product but is nowhere near adequate for advising on retirement options which will affect the client's remaining lifetime. The consultation paper itself quotes some nine hours as being realistic, so the bill is going to be well into four figures even at the cheapest one-man practice. The average client is still going to have to dip into his pocket to the tune of £800. This is a very substantial sum for those on low incomes who may well be uncertain what benefit the advice will be to them.

4.3 We move now to answer those questions which are relevant to our experience.

5 Question 1: How widely are the existing provisions for facilitated adviser charging used? The government welcomes evidence from pension providers and advisers on the types of products and transactions which use adviser charging.

5.1 No comment.

6 Question 2: The government welcomes views on the proposed design of the Pensions Advice Allowance.

6.1 We consider that the proposed design of the PAA is well-suited in all but one respect. The direct payment between provider and adviser ensures that the adviser is regulated and minimises fraud and scamming; making them authorised payments removes misguided tax charges; not affecting the eventually-crystallised tax-free lump sum removes a disincentive; permitting payment from any one Defined Contribution fund for holistic retirement planning and advice is eminently sensible – advice on just one source of retirement income would be worse than useless; it would be positively misleading. We assume the legislation will make it crystal clear that the payment will not be regarded as income for any means-tested benefits purposes.

6.2 Our one reservation is that £500 is quite inadequate to encourage/enable a low income consumer to pay for holistic retirement planning, as mentioned in our introduction above. The many hours needed for a full factfind and assessment of the wider considerations of the client's aspirations, commitments, lifestyle, dependants, health, etc. and researching the best results for that client would take a qualified IFA's fees well over the thousand pound mark, leaving the low –income client with a shortfall of perhaps £800 - £1,000, a sizeable figure for those with a typical median pension pot of around £20,000.[1] The facility for employers to top the proposed £500 up with their new tax and NICs free £500 allowance might go some way towards bridging that gap, but the ability for many

---

[1] https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2014/Pensions/The%20UK%20Annuity%20market%20Facts%20and%20Figures.ashx

small employers being able to afford that amount – or indeed any amount – is pretty unlikely.[2] Their enforced contribution to auto-enrolment pension schemes will already be stretching their resources. Obviously an employer top-up is no use to the self-employed or the unemployed on benefits. A matching Government contribution would level the playing field across all pension savers, but we recognise that this is probably a utopian suggestion.

6.3 These consumers are probably the ones most in need of expert advice on how to make their pension income and savings stretch to the end of their, or their dependant's, life. They are also the ones most likely to need advice on the potential interaction with state benefits. They are almost certainly the ones with least disposable current income to pay for that advice, even if partially subsidised with their own money, reducing still further their already insubstantial pots. To suggest that the alternative of free guidance from Pension Wise would suit their needs is to elevate generic advice to a point far higher than can be justified. Were it to be so, then this whole consultation paper would be redundant.

6.4 We would therefore recommend that the PAA be raised to £1,000 or a maximum of 5% of the pension pot – any more than that would probably reduce the product of that pot below any possible gain from regulated advice.

6.5 Further, we recommend that the level of the allowance is reviewed at least every three years so that it remains relevant and realistic. In this regard, a simple index-linking of the allowance may not be adequate; rather a comparison with the actual market is required so that the allowance is adjusted to reflect the actual cost of advice.

7 Question 3: The government welcomes views on this option. Are there any other ways to limit the number of times people can use the allowance?

8 Question 4: What age should the allowance be available from?

8.1 We take these two questions together since they are closely related.

8.2 From the point of view of our constituency multiple withdrawals of a PAA would severely deplete their modest pots and greatly reduce the benefits of professional advice on their retirement income. We would not wish to see them encouraged to make multiple use of this facility. It might be worth considering a percentage maximum as suggested above which would give flexibility for those with more significant pots to make repeated use of PAA if they felt it was worth their while.

8.3 As far as a minimum age is concerned, we regard five years before pension crystallisation age as too late to make any serious adjustment to their pensions savings or retirement age; indeed many personal pension schemes recommend moving pension investments into safer areas like cash or bonds at that point. Ten years would seem to be adequate to take appropriate action to improve the retirement situation, as well as being an age when the prospect of retirement is beginning to loom

[2] The Department for BIS reported that 99.3% of businesses in the private sector were SMEs. Statistical release 26 November 2014

larger on a saver's horizon. The ten years could be linked to changes in the minimum pension withdrawal age.

8.4 Two bites at the cherry would be reasonable. A ten-year advance session to review the retirement savings and recommend ways of increasing them if necessary and a meeting at the point when the consumer wishes to retire to consider the options now available. We should bear in mind that the current average retirement age is 63+,[3] so there could be a gap of some 18 – 20 years between a possible first advice session at, say, age 45 and the second session to weigh up retirement choices.

9 Question 5: How could consumer awareness of the allowance be increased?

9.1 This would seem to be a matter for pension schemes and perhaps the proposed new Public Financial Guidance service to deliver. Providers could include an explanatory note, possibly using standardised FCA wording, with their annual statement at minimum pension age minus 10. The chances of many people being already aware of this facility are slender. The PFG website could post information on its pensions section, as well as including it in it early encouragement and nudges to young people to start saving for a pension.

10 Question 6: Are people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, impacted by the policy proposed?

10.1 We can see no adverse impact on those with protected characteristics or the vulnerable in this proposed policy, although we should underline that the facility would be almost useless for those with very small pots, e.g. the auto-enrolled long-term disabled.

11 Question 7: The government invites comment on the proposed scope of the Pensions Advice Allowance.

11.1 We consider it of importance that a PAA should only be used to pay for regulated advice. Anything less would open up the scheme to fraud and poor quality advice or guidance. As we mention above, mere guidance is inadequate for such major and possibly irreversible decisions as retirement options. Advice given by a trained and qualified adviser, monitored, regulated and insured, is the only route which should be available via PAA. (We should expand that to the plural since it could well be desirable for a consumer to consult a qualified tax adviser authorised by a recognised professional institute as well as an IFA for specialist advice.) If people choose to seek advice from the poorly-trained, uninsured and possibly plain scamming fraudsters, then they should not be subsidised out of their own pension savings.

11.2 We reiterate our recommendation that the limit should raised to a more realistic £1,000 or a maximum of 5% of the pot.

[3] http://uk.businessinsider.com/financial-advisor-insights-may-16

11.3 We are not convinced that automated advice is a suitable substitute for face-to-face advice from a human being. Websites, online calculators and so on are still not yet able to match the flexibility of an adviser.

11.4 It makes sense to enable the use of a PAA from a DC scheme to seek advice across the consumer's whole range of pension schemes and options. Without a holistic overview, the advice would be flawed.

12 Question 8: The government welcomes evidence on the proportion of products or schemes that currently offer facilitation of adviser charging.

12.1 No comment.

13 Question 9: How could the government maximise access to the Pensions Advice Allowance?

13.1 No comment.

14 Question 10: How much of the pension market would be likely to offer the Pensions Advice Allowance to their customers?

14.1 No comment.

15 Question 11: How do providers reduce the client's benefits accordingly if they offer to facilitate adviser charging on products with a guaranteed income?

15.1 No comment.

16 Question 12: Are there any difficulties in offering facilitation of adviser charging for products with other types of guarantee?

16.1 No comment

17 Question 13: The government welcomes views and evidence on any difficulties in offering the Pensions Advice Allowance presented by scheme rules or more generally in respect of members of occupational pension schemes.

17.1 No comment.

18 Question 14: The government welcomes views and evidence on any difficulties in offering the Pensions Advice Allowance for automated advice models.

18.1 We have commented above in Q7 our views on automated advice models.

19 Question 15: Are there any other products or schemes for which it would be more difficult to offer the allowance? How could the government address these difficulties?

19.1 No comment.

20 Question 16: Are there any other ways to mitigate the risk of fraud?

20.1 As we say above, direct payment between recognised pension schemes and FCA-regulated advisers achieves a very high standard of security against fraud.

21 Question 17: Do you have any other information that does not relate to any of the consultation questions above that you feel would be beneficial to HM Treasury when designing and implementing the Pensions Advice Allowance?

21.1 A question rather than information. Has HM Treasury considered the increasingly blurred lines between conventional pension savings and other forms such as Lifetime ISAs (LISAs) or further developments of ISAs as tax-incentivised later life income? Should not legislation be framed in such a way as to make it possible for the PAA scheme to be extended to similar related schemes to provide post-work income? For example, the LISA is subject to penalty if the funds are withdrawn except for authorised purposes within the scheme rules (a house purchase, or age 60 as we understand it); so should there not be a similar facility to withdraw a sum from a LISA for retirement planning advice, analogous to the PAA?

21.2 Another question. Has HM Treasury considered how this proposal would apply to non-resident British pensioners? Would the same rules apply to those taxed under a foreign jurisdiction but with UK-based pensions?

21.3 A small technical point. Should the PAA be taken proportionately from the various asset allocations of a pension fund as a default option or should the consumer be allowed a choice, a decision which in itself would probably require regulated advice? Likewise should they take advice on which pension pot would be the best source of the PAA in view of the different performances and charges of different schemes? Perhaps it is an area for consultation between HMT and FCA.

LITRG

11 October 2016