

**Financial Conduct Authority  
CP21/11: The stronger nudge to pensions guidance  
Response from the Low Incomes Tax Reform Group (LITRG)**

**1 Executive Summary**

- 1.1 We welcome the opportunity to respond to this consultation. Our expertise is in relation to tax and the interactions between the tax and welfare systems. We are in favour of more nudges being provided to consumers, who intend to access their pension savings, to seek guidance.
- 1.2 Guidance is not advice, of course, and it is left up to the consumer to apply the guidance to their own situation and to decide what action, if any, to take. A PensionWise appointment provides a great deal of information that may be difficult for the average consumer to assimilate even with the follow-up communication. It is unfortunate that the cost of advice is such that those on low incomes may be least able to access the advice that might help them make a better choice.
- 1.3 Rather than only offer guidance at age 50 and above, we do think more signposting should be made available whenever a consumer notifies a provider that they intend to transfer their pension savings. This could help prevent scamming.
- 1.4 Taxation and the potential loss of welfare benefits are serious considerations for consumers and we believe these should be given more prominence.

**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 expertise is in relation to taxation, including its interaction with welfare benefits. Taxation can have a significant impact on the funds available to an individual both immediately and in the medium term and we believe this should be emphasised to consumers.
- 3.2 For example, the consumer may have basic rate tax deducted from the taxable portion of their pension withdrawal even though they are a non-taxpayer overall, leading to a delay in receiving their full funds.
- 3.3 Alternatively, the consumer may be a higher rate taxpayer (or trigger a high income child benefit charge<sup>1</sup>) and have further tax to pay on their pension withdrawal, meaning they will have less funds available than they may have thought at first. The taxpayer therefore risks falling into tax debt (or triggering penalties for failure to notify liability to HMRC, especially in relation to the high income child benefit charge) if they have spent withdrawn funds without making provision for extra tax.
- 3.4 A withdrawal may also provide funds to the consumer that are taken into account for means-tested benefits.

### **4 Responses to the various questions**

- 4.1 ***Q1: Do you agree with our proposed approach on the trigger for the nudge?***
- 4.1.1 We agree that consumers should be nudged both when they indicate they wish to access their pension savings and when they indicate they wish to transfer rights to another pension scheme. In that latter case we suggest they might be nudged to get advice whether or not they have indicated the reason for the transfer is to access the funds. This might prevent some people being scammed.
- 4.1.2 In addition, we agree that the nudge should be given even if the consumer has previously had guidance or regulated advice in the past. Circumstances can change quickly and so can regulations and legislation. An individual's tax status at any given time might change their opinion of the best course of action, for example.

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<sup>1</sup> If their adjusted net income, when adding in pension withdrawals, exceeds £50,000 in a single tax year and the taxpayer or their partner claims child benefit.

- 4.2 ***Q2: Do you agree with our proposals to incorporate the delivery of the nudge into step 1 of our existing retirement risk warning rules?***
- 4.2.1 As noted at 4.1.1 above, we think any transfer of funds may potentially lead to scamming. While we accept that PensionWise may only offer guidance interviews to individuals from 50 years of age, a signposting to their guidance might be appropriate in other cases too.
- 4.2.2 We do agree that the nudge should come at step 1 of the existing retirement risk warning rules.
- 4.3 ***Q3: Do you agree the explanation of the nature and purpose of guidance does not need to be prescribed?***
- 4.3.1 There is a difference between a conversation and the written word. We think it would be helpful for there to be consistency in the way information is provided without, however, reading verbatim from a script. In addition, it may be helpful for the guidance to signpost to other areas where assistance may be required, for example in relation to entitlement to state benefits, dealing with debts and the tax issues arising from any benefits being taken from a pension arrangement. Also, we believe that the difference between guidance and advice should be clearly explained.
- 4.4 ***Q4: Do you agree with proposed approach to appointment bookings and opt-outs?***
- 4.4.1 The approach for booking appointments seems sensible, but if this builds in a significant delay people might be discouraged from accessing the guidance. It is therefore essential that there are sufficient numbers of appointments available from fully-trained staff.
- 4.4.2 We do have a concern that where the ‘provider’ is the ‘receiving provider’ that there may be more incentive to discourage the individual from accessing impartial guidance – either to simply get more business quickly or because there is an intention to ‘scam’ the individual.
- 4.5 ***Q5: Do you agree that where a consumer has previously been nudged and has confirmed receiving Pension Wise guidance, they do not need to be nudged again, unless it appears on reasonable grounds that the consumer could benefit from receiving guidance again?***
- 4.5.1 This seems appropriate, but providers need to be given guidance as to the meaning of ‘reasonable grounds.’ Perhaps a better route might be to confirm that guidance need not be sought again unless the consumer believes their circumstances have changed significantly from when they previously sought guidance. This change of circumstance might include their tax status.
- 4.6 ***Q6: We welcome views on what would be the most relevant data for us to gather, and the most effective and proportionate way for providers to gather and submit this information.***
- 4.6.1 While we cannot comment on the way providers might gather and submit this information, we do think it would be useful to know why consumers might opt out of PensionWise guidance.
- 4.7 ***Qs 7 to 11***
- 4.7.1 No comment.

4.8 ***Q12: In this context, we would welcome views and any supporting evidence on what more we can do to support consumers to access the right information and guidance they need to help them make well informed decisions about accessing their pensions.***

4.8.1 Our expertise is in taxation and the interaction with welfare benefits. We are often contacted by people who are unsure as to the taxation status of funds they have received from their pension.<sup>1</sup> For some people, accessing their funds can lead to unexpected tax charges or a restriction in welfare benefits. While we understand these points are mentioned by PensionWise, we believe these factors need to be given greater prominence. This might be achieved by signposting to other sources of reliable, more detailed guidance.<sup>2</sup>

LITRG  
9 June 2021

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<sup>1</sup> Although LITRG does not provide an advice service, we are often contacted via our websites by people seeking support with tax and related welfare benefits matters, or by people sharing their experiences of the tax and benefits systems.

<sup>2</sup> LITRG publishes guidance on tax on pension withdrawals. For example, see: <https://www.litrg.org.uk/tax-guides/pensioners/what-tax-position-when-i-take-money-my-pension-flexibly>. Our websites, providing free guidance on tax and related benefits, written by subject experts, are visited by some 5.5million people each year.