Pensions – The Current Landscape and Hot Topics

Sheffield CII Autumn Conference - October 2021

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LEARNING OUTCOMES

(APPROXIMATE PRESENTATION DURATION – 30 Minutes)

This session covers a range of current pensions hot topics, from the latest views on potential pension tax relief reform and any possible drivers for change to the state pension, to the latest Pensions Freedoms statistics and customer behaviours, and finally pension death benefits including The Staveley Case outcome.

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By the end of this session, you'll be able to explain:

1. **Current drivers for pension tax relief and state pension reform**
2. **The latest pension freedoms statistics and customer behaviours**
3. **Pension death benefits in the news**

PENSIONS TAX RELIEF

TAX RELIEF – VIEWS FROM THE FLOOR

Tax relief is poorly understood and poorly targeted … If you wanted to encourage lots of taxpayer spending to incentivise saving, the people you would normally most want to incentivise are those who have least ability to save.

The way tax relief works, of course, *gives most incentive to those who are at the top end*. I have done research in the past on this and most people do not have a clue how much money they get from tax relief, what it is worth to them and what it even means. Indeed, in some cases, those people who have no financial education at all, when they hear "tax relief", think it is some kind of tax and not a good thing but a bad thing. The 20% tax relief is equivalent to a 25% bonus from the Government—free money

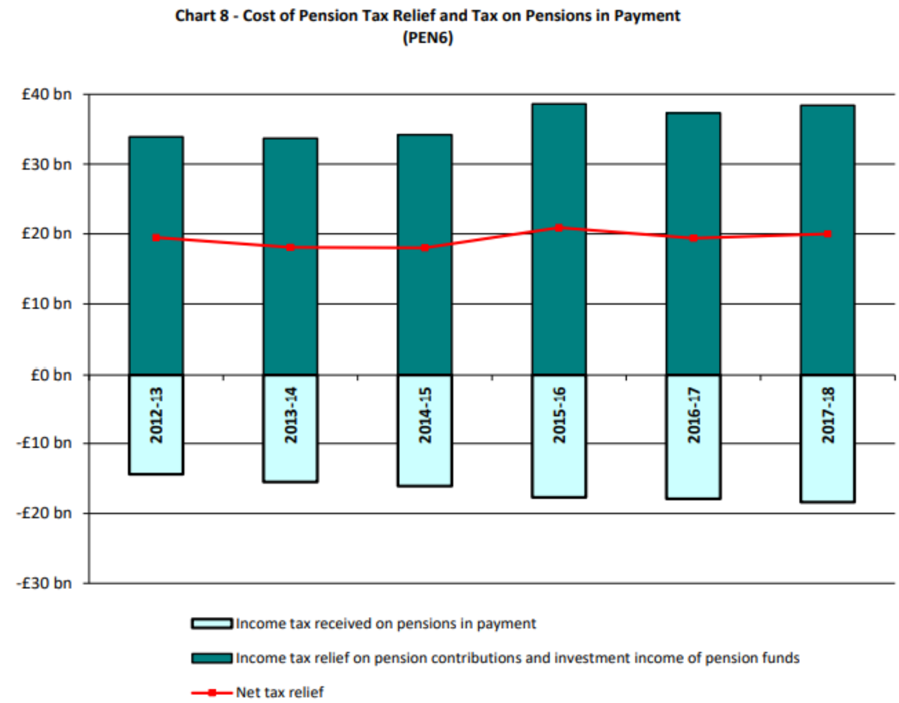
Baroness Altmann

SCOTTISH WIDOWS

https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/565/56508.htm

HMRC PENSIONS STATISTICS – COST OF RELIEF

2.3 Cost of tax relief of registered pension schemes (see Table6)



Source:https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994352/Personal_Pensions_and_Pensions_Relief_Statistics.pdf

PROPOSALS FOR REFORM

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Reform of pension tax relief

House of Commons Library

Reform of pension tax relief

Published Friday, February 7, 2020

Looks at the debate on pension tax relief reform

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The principle of the current system of tax relief is that contributions to pensions are exempt from tax when they are made, but taxed when they are paid out to the individual. Pension contributions made by individual employees are usually paid out of pre-tax salary, so tax relief is received at their marginal tax rate. The main limits that apply are the lifetime allowance (LTA) and annual allowance (AA). (*Finance Act 2004 (FA 2004)*, Part 4).

At introduction in 2006, the AA was set at £215,000 and the LTA at £1.5 million. Both were set to increase in stages, with the LTA reaching £1.8m and the AA £255,000 by 2010. (*FA 2004* s218 and 228). Since 2010, both allowances have been reduced in stages, which has reduced the proportion going to higher earners and contained costs (Cm 9102, July 2015, para 1.5 and 2.6.) For more detail, see Library Briefing Paper CBP 5901 Restricting pension tax relief (Feb 2020).

One criticism of the current system is that it is not an effective incentive for those most at risk of not saving enough for their retirement. The Government consulted on reforms to strengthen the incentive to save in July 2015. Debate focused on:

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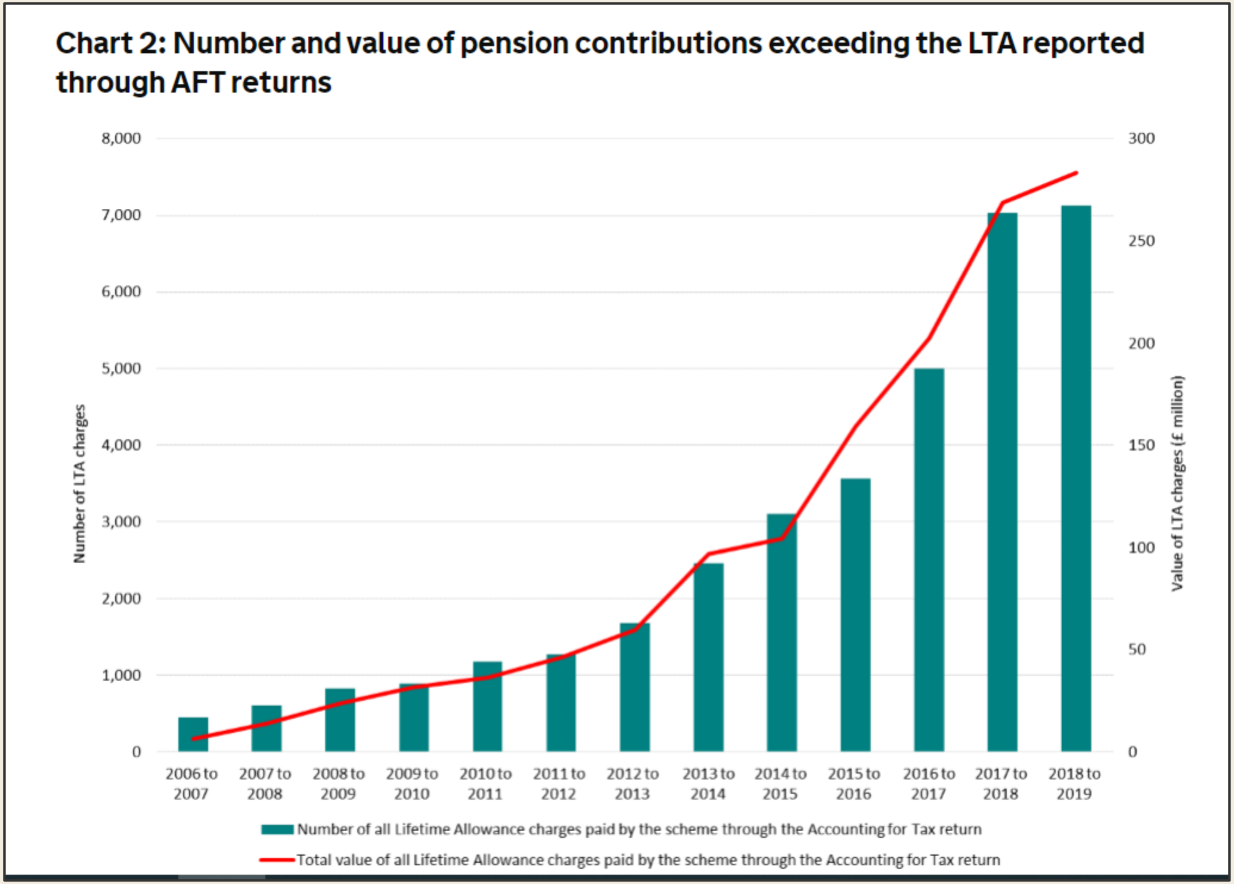
Source: *https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7505*

PROPOSALS FOR REFORM

- **A shift to a single-rate of relief**, possibly rebadged as 'matching contributions' from the Government. Advocates of this approach said it would improve incentives to save for low earners and – depending on the rate at which it was set - could reduce Exchequer costs. However, there are concerns that it would be complex to administer for defined benefit (DB) schemes.
- **Moving to a TEE (taxed-exempt-exempt) system** where contributions are made out of taxed incomes (and then topped-up by the Government) while investment returns, and any income ultimately received, would be tax-free. Advocates say this could allow individuals to better understand the benefits of contributing to a pension and make the Government's contribution more transparent. Others argue that it would be very complex in transition, could undermine pension saving and have a negative fiscal impact.
- **Retaining the current system with some modifications**, for example regarding the LTA and AA. This would have the advantage of lower implementation costs, meaning that reforms could be delivered quickly and with minimal risk.

Source: https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7505

HMRC PENSIONS STATISTICS - LTA



Source https://www.gov.uk/government/statistics/personal-pensions-tables-7-and-8/commentary-for-personal-pensions-tables-7-and-8

BUDGET CHANGE ANNOUNCED

PENSIONS Age
The leading pensions magazine

Chancellor, Rishi Sunak, has announced that the pensions lifetime allowance (LTA) will be frozen at £1,073,100 until April 2026.

In his Spring Budget speech, Sunak said: "I will maintain at their current levels, until April 2026, the inheritance tax thresholds, the pensions LTA and the annual exempt amount in capital gains tax."

The LTA had been expected to rise by £5,800 in 2021/22, in line with 0.5 per cent Consumer Prices Index (CPI) inflation.

The freeze is expected to save the government £80m in 2021/22, £150m in 2022/23, £215m in 2023/24, £255m in 2024/25 and £300m in 2025/26.

Source: https://www.pensionsage.com/pa/Spring-Budget-2021-LTA-frozen-until-April-2026.php

CHANGES CONFIRMED AND POSSIBLE FUTURE DIRECTION OF TRAVEL

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FURTHER PRESSURE FOR CHANGE?

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FEATURES PENSIONS REGULATION INVESTMENTS PLATFORMS PROTECTION FINANCIAL ADVISER 2B LATEST EDIT

Autumn Budget and Spending Review double whammy

By **Katey Pigden** | 8th September 2021 8:55 am

Image credit: HM Treasury

Chancellor Rishi Sunak will set out the public spending plans for the next three years at the Spending Review on 27 October, which will take place alongside an autumn Budget.

While yesterday saw the government announce changes to National Insurance contributions and a temporary tweak to the state pension triple lock, the chancellor also launched Spending Review 2021 (SR21).

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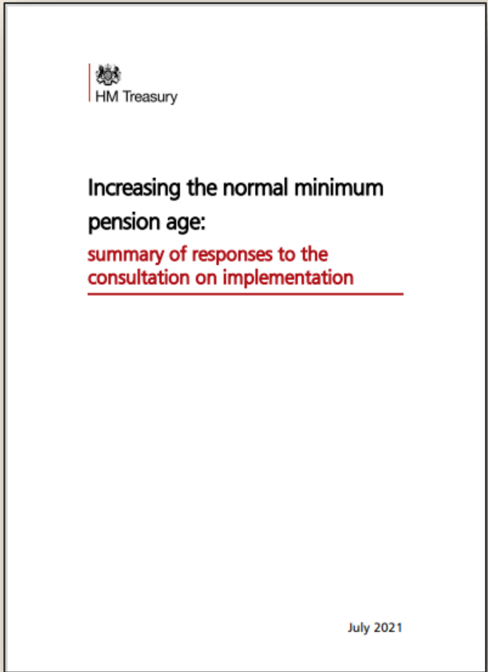
Source: https://www.moneymarketing.co.uk/news/autumn-budget-and-spending-review-double-whammy/?eea=SmhPRkhteG4xcS9ySUFRWnNhR2dPMHhDaVQrOHFwempDSGRHNmFyWmp2cFFkcHQxUFRTNVhVS25OQm9nYXNHeA==&n_hash=2242&utm_source=e-shot&utm_medium=email&utm_campaign=MM-655-(Edi)-MorningNews-%232242

A CHANGE FINALLY CONFIRMED


HM Treasury

Increasing the normal minimum pension age:

summary of responses to the consultation on implementation

July 2021

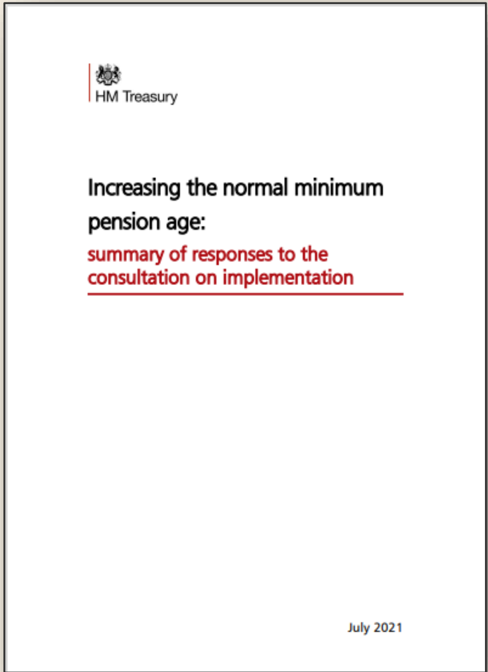
The government will legislate in the Finance Bill to increase the normal minimum pension age ***__from 55 to 57 on 6 April 2028__***. This is the age at which most members of registered pension schemes can draw benefits without incurring unauthorised payment charges (unless they are taking their pension due to ill-health). Increasing the normal minimum pension age reflects increases in longevity and changing expectations of how long we will remain in work and in retirement.

SCOTTISH WIDOWS

Source: https://www.gov.uk/government/consultations/increasing-the-normal-minimum-pension-age-consultation-on-implementation

Classification: Public

TRANSITIONAL ARRANGEMENTS


HM Treasury

Increasing the normal minimum pension age:
summary of responses to the consultation on implementation

July 2021

The increase to the NMPA was announced in 2014 following a consultation and reconfirmed earlier this year. Members of uniformed public service pension schemes and ***<u>those with unqualified rights</u>*** to take their pension below age 57 will be protected from these changes.

<u>The government proposes that individuals should retain their protection as part of a transfer where they become a member of another pension scheme as a result of a block transfer.</u>

SCOTTISH WIDOWS

Source: https://www.gov.uk/government/consultations/increasing-the-normal-minimum-pension-age-consultation-on-implementation

Classification: Public

FURTHER SCRUTINY OF PRICE AND VALUE?

FCA FINANCIAL CONDUCT AUTHORITY

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CP21/13: A new Consumer Duty

Consultation papers | **Published:** 14/05/2021 | **Last updated:** 10/08/2021

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We are consulting on a Consumer Duty that would set clearer and higher expectations for firms' standards of care towards consumers. A link to the full consultation paper (CP21/13) is provided below, and this page summarises our proposals.

Consumer Duty summary

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Source: *https://www.fca.org.uk/publications/consultation-papers/cp21-13-new-consumer-duty*

FURTHER SCRUTINY OF PRICE AND VALUE?

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RES PENSIONS REGULATION INVESTMENTS PLATFORMS PROTECTION FINANCIAL ADVISER 2B LATEST ED

Is this the beginning of the end for percentage charging?

With the FCA giving greater focus to 'fair value' historic questions over charging models are being asked again

By Jon Roberts | 7th September 2021 11:00 am

When looking again at the issue of percentage charging, it's important to remember one of the key themes of the recent consultation on the proposed new consumer duty is 'fair value'. While the FCA insists it is not a price regulator, its comments on price and value for products and services are becoming more regular and prominent.

In several sectors it's now a common theme. Think about the asset management market study where fund managers must now assess fund value, recent work on general insurance distribution chains, mortgage rules on excessive charges and the detail in the recent consumer duty consultation. This is a cross-sector issue and it's not going away.

Assessment of value should consider:

- The nature of the product, including the benefits that will be provided or may reasonably be expected, their quality and any limitations
- The type and quality of services provided to customers
- The expected total price the customer will pay, and
- The firm's costs for manufacturing and/or distribution of the product or service

Source: https://www.moneymarketing.co.uk/opinion/the-debate-around-percentage-charging-continues-to-rage/?eea=SmhPRkhteG4xcS9ySUFRWnNhR2dPMHhDaVQrOHFwempDSGRHNmFyWmp2cFFkcHQxUFRTNVhVS25OQm9nYXNHeA==&n_hash=2225&utm_source=e-shot&utm_medium=email&utm_campaign=MM-967-(Edi)-LatestNews-%232225

FURTHER SCRUTINY OF PRICE AND VALUE

FCA targets fund & product fees over 1.5% in DB transfer questionnaire

The FCA is concerned clients are being transferred into expensive investment fund solutions after a DB transfer.

By James Fitzgerald
01 Jul, 2020

39

The FCA is probing advisers about expensive fund and product fees for defined benefit (DB) transfer clients in its market-wide survey of advisers, *New Model Adviser®* can reveal.

The FCA questionnaire asked advisers how many retail clients proceeded to transfer or convert into an investment solution that had: annual or ongoing product and investment charges (excluding ongoing advice charges) of:

- less than 0.75%;
- between 0.75% and 1.5%;
- and more than 1.5%.

The FCA also pressed advisers on how many clients were transferred into investment funds that had higher charges than their workplace pensions, a concern mirrored in the regulator's DB market-wide review publication last month in which it banned contingent charging.

SCOTTISH WIDOWS

Source; https://citywire.co.uk/new-model-adviser/news/fca-targets-fund-and-product-fees-over-1-5-in-db-transfer-questionnaire/a1375117

INVESTMENT PATHWAYS FOR DRAWDOWN

Credit: Monica Silvestre/Pexels

By Chris Jones

The FCA's long-awaited investment pathways rules has come into force this month, and while the implications are greatest for providers and non-advised investors, advisers and their clients will not remain unaffected.

Implications for advice firms

The pathways do have some important implications for advice firms.

- Firstly, providers must offer these options to advised and non-advised customers alike, so your clients will be aware.
- Secondly, and perhaps more importantly, ***the non-advised options with a 75bps anchor may well become a 'standard' against which regulated advice is compared and measured.***

SCOTTISH WIDOWS

Source; https://www.ftadviser.com/retirement-income/2021/02/03/what-advisers-should-know-about-the-fca-investment-pathway-rules/?page=1

PENSIONS FREEDOM AND CHOICE

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Classification: Public

ABI REVIEW OF PENSIONS FREEDOMS

- **Many current retirees are making full use of pension freedoms**. There are valid concerns about unsustainable withdrawals but right now they are mitigated by most retirees having other sources of income, particularly guaranteed income from defined benefit pensions. Future retirees will be much less likely to have other income to rely on and many will be relying solely on a DC pension.

- **Investment pathways, introduced by the FCA in February 2021 to support customers' pension investment decisions, are intended to help avoid a mismatch of investments and withdrawal patterns**. According to initial data from the ABI, they are being used as intended. But the policy is in its infancy, just a few months in, and it is important to monitor how customers use the pathways over the longer term.

- **Most people are not getting the support they need to make decisions about withdrawals**. The industry has an important role to play in providing this help, in addition to regulated financial advice and greater, earlier uptake of impartial guidance from Pension Wise.

- **Pensions providers have improved the support they offer by more tailored communication and greater use of digital channels**. The industry could go further still, by improving how pension options are presented to customers and define boundaries to shape decisions, so customer decision making is simpler and safer. A change in the advice rules would enable them to do more.

SCOTTISH WIDOWS

Source: https://www.abi.org.uk/news/news-articles/2021/06/industry-fears-customers-are-still-not-getting-enough-support-with-pension-withdrawals/

ABI REVIEW OF PENSIONS FREEDOMS

TABLE 1. SHARE OF POTS ACCESSED FOR THE FIRST TIME OCTOBER 2019 TO MARCH 2020 THAT USED ADVICE OR PENSION WISE GUIDANCE

	Advice	Pension Wise	Provider only
All pots accessed	36%	12%	52%
>£30k pots accessed	58%	10%	32%
Pots entering drawdown	63%	10%	27%
Pots fully withdrawn	22%	14%	65%

Source: FCA Retirement income data, Frontier Economics calculations

Note: We have excluded those pension pots from this analysis that were used to purchase a guaranteed income for life.

SCOTTISH WIDOWS

Source:https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf/

ABI REVIEW OF PENSIONS FREEDOMS

Achieving sustainable withdrawal rates

Perhaps the greatest concern among stakeholders is that customers in drawdown without advice will run out of money in retirement. *PPI research30 shows that "a withdrawal rate of 3.5% ensures a 95% chance of not exhausting savings by time of death, while a withdrawal rate of 7% gives around a 50% chance of exhausting savings by average life expectancy".* The FCA's retirement income market data shows that a considerable proportion of people are drawing down their pensions at a rate that means their pot will be exhausted.

SCOTTISH WIDOWS

Source:https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf/

Classification: Public

PENSION FREEDOMS – WHAT ARE PEOPLE ACTUALLY DOING?

'I spent £65k of my pension on building my own Dinosaurland'

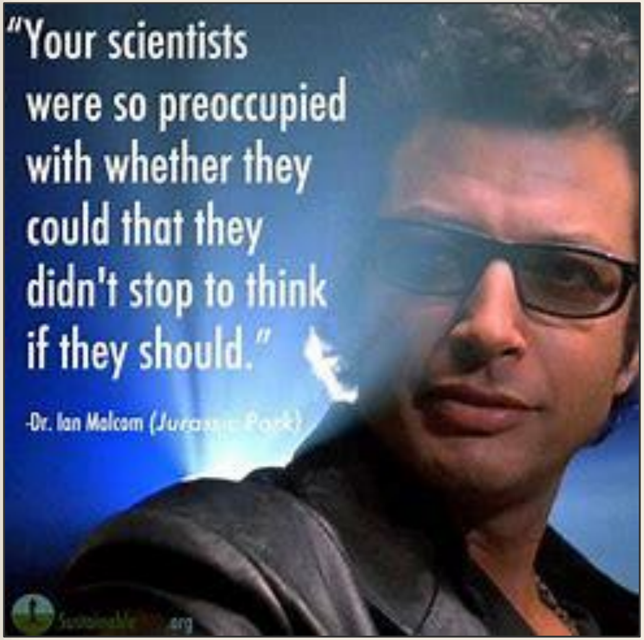
A canny museum owner disproves the theory pension freedoms would mean savers burn through their cash

• Premium

By Jessica Beard, PENSIONS REPORTER
8 March 2020 • 5:00am

Under pension freedom rules, the first 25pc of any cash you withdraw is tax free | CREDIT: Jay Williams

When pension freedoms were introduced in April 2015, few would have imagined that the controversial reforms would have led to Dorset's answer to Jurassic Park. The rules mean over-55s can withdraw as much as they liked from their pension pots. There were fears that savers would burn through their retirement money too quickly. So far, that doesn't seem to be a problem.



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Source: https://www.telegraph.co.uk/money/consumer-affairs/spent-65k-pension-building-dinosaurland/

DEATH BENEFITS IN THE NEWS

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STAVELEY CASE

FT ADVISER

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Inheritance Tax August 19 2020

Supreme Court rules ill-health pension transfer not liable for IHT

The Supreme Court

By Amy Austin

Financial Adviser

The Supreme Court has ruled a pension transfer made in ill health was not liable for inheritance tax in a landmark case coming to a close after six years.

In its final judgment in the Commissioners for Her Majesty's Revenue and Customs v Parry & Ors case, better known as the Staveley case, the Supreme Court ruled this morning (August 19) HMRC was not right to charge IHT on the claimant's pension transfer, though it was right to charge it on what HMRC deemed an 'omission of benefits'.

SCOTTISH WIDOWS

Source: https://www.ftadviser.com/pensions/2020/08/19/supreme-court-rules-ill-health-pension-transfer-not-liable-for-iht/?page=1

STAVELEY CASE

What does the ‘Staveley‘ case mean for pension transfers in ill-health?

- Today, any advised member should be fully and accurately informed of the reasons for, and consequences of, a pension transfer – including any death benefit changes. If a member is informed of death benefit consequences, it’s going to be hard to establish that this knowledge plays no part in motivating them to transfer. That gives HMRC grounds for arguing that gratuitous intent exists and IHT is payable.

- So we conclude that the Staveley case establishes that a s10 defence is possible. But that nowadays, it’s only likely to be successful in relation to ill-health pension transfers that do not lead to any death benefit improvements for anyone.

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STAVELEY CASE

What does this mean for pension transfer advice?

- It clearly makes sense to ensure that clients are in the right pension for their circumstances long before health becomes an issue. Transfers made while in normal health will not give rise to an IHT charge.

- Only pension transfers where someone transferred within two years of their death are captured on the IHT409 form***. It is therefore far better to get pension affairs in order whilst clients are in good health rather than trying to rely on other mitigations.***

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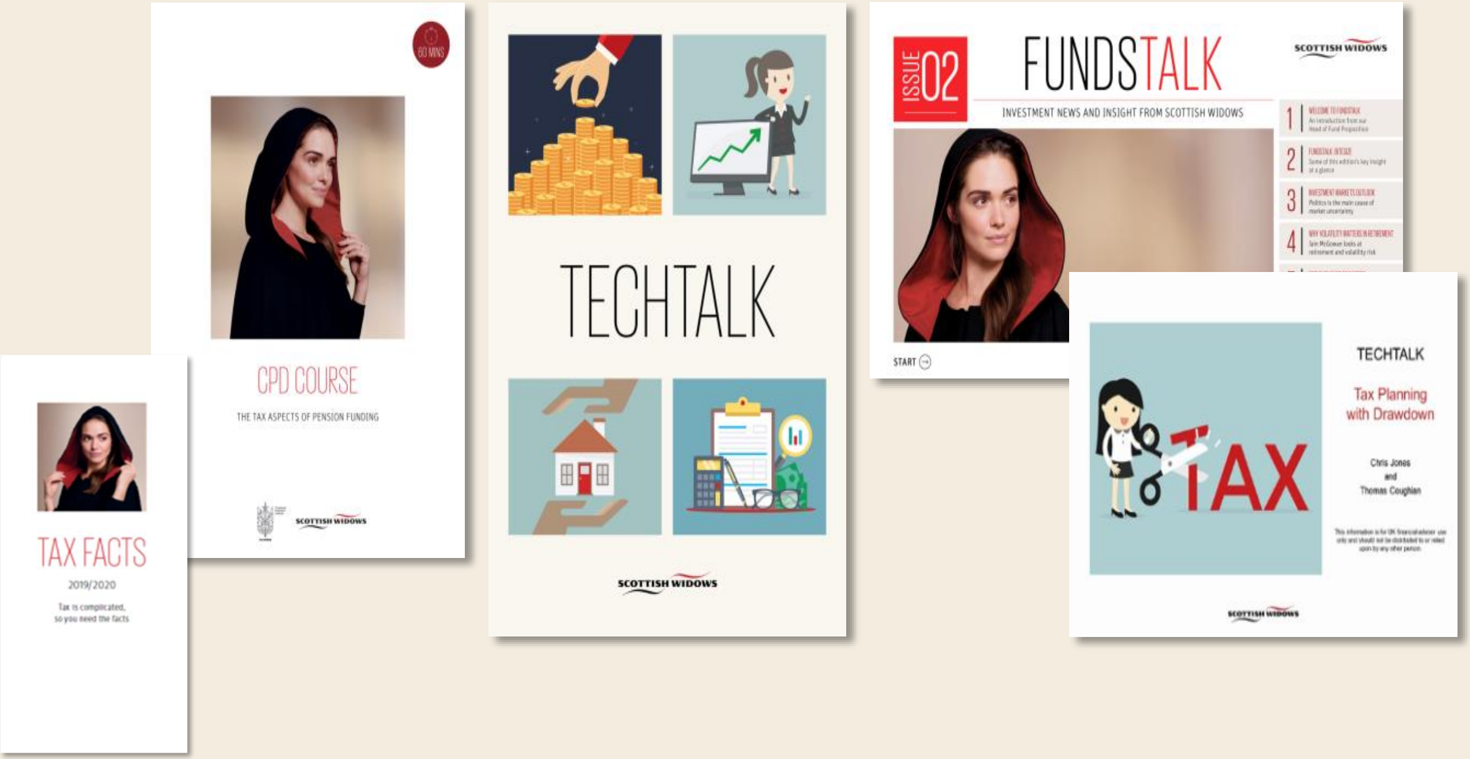
SHARING OUR EXPERTISE



IMPORTANT NOTES

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

FCA ref: 33982 10/2021