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The 100 Group

Pensions Committee

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Emily Pinkerton and David Berenbaum
Strategy and Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

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Dear Ms Pinkerton and Mr Berenbaum

Consultation on Advising on Pension Transfers

I am writing on behalf of the Pensions Committee of the 100 Group of Finance Directors with regard to the above-named consultation.

The 100 Group

The 100 Group represents the finance directors of the FTSE 100, several large UK private companies and some UK operations of multinational groups. Our member companies represent the vast majority of the market capitalisation of the FTSE 100, collectively employing 7% of the UK workforce, and in 2016 paid, or generated, taxes equivalent to 13% of total UK government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance. The 100 Group represents companies sponsoring defined benefit (DB) pension schemes with assets of approximately £500bn and membership of 3.6m.

Whilst this letter expresses the views of the 100 Group of Finance Directors as a whole, these views are not necessarily those of our individual members or their respective employers.

Response

As sponsors of some of the largest UK DB pension schemes, the 100 Group agrees with the FCA that it is important that consumers receive good quality advice in order to allow them to make informed decisions as to whether or not to transfer their DB pension to a defined contribution (DC) vehicle. We therefore also agree that it is right for the FCA to review whether the current transfer advice requirements remain appropriate. DB schemes sponsored by 100 Group companies have already seen a marked increase in the number of transfer values being requested and paid.

The FCA proposes that the current Transfer Value Analysis (TVA) is replaced by an overarching requirement to undertake appropriate analysis of the client's options on transfer, including but by no means limited to the use of a prescribed comparator. The advice would include not only details of the client's income needs and expectations and the details of the receiving scheme, but also alternative ways of achieving the client's objectives and 'the relevant wider circumstances of the individual', which might include tax, death benefits, interaction with means-tested benefits, state of health and family situation.

None of these elements seems irrelevant in isolation and, in principle, the 100 Group agrees that broadening the scope of the advice requirement will help consumers make more informed decisions. However, we have some concerns that these additional transfer advice requirements might add considerably to the costs of the advice process, which can already cost thousands of pounds per member. We also wonder whether the independent advice market is fully equipped to provide advice of the quality suggested by the FCA, and therefore whether the difficulty of finding an adviser able to provide the necessary advice could add further to the cost of such advice.

This could in the end prove counter-productive. Members with transfer values in excess of £30,000 do not have a choice as to whether or not to seek advice and may therefore find themselves faced with a different choice: between seeking expensive advice or giving up on their intention to transfer altogether before they had taken any advice. In this case, the decision not to transfer would be a decision informed only by the cost of seeking advice, and not by the appropriateness of the transfer itself. This could run counter to the FCA's stated intent to assess transfers from a 'neutral starting point'. The costs are likely to be particularly disproportionate for those with smaller pension funds in excess of £30,000, where the advice requirement will be triggered, but the costs of that advice could amount to a substantial percentage of the fund value.

We also note that, in a number of cases, employers pay for the costs of obtaining independent financial advice for members. Higher advice costs could make the provision of such advice less attractive to employers, especially for members with lower transfer values where the advice costs may appear disproportionate to the value being considered for transfer. In addition, widening the scope of the advice in the way suggested would make it very difficult to scale, for example where very large schemes might wish to provide advice across their membership. It would be hard to develop a tool or model that could easily cover all of the angles proposed.

We would therefore urge the FCA to be cautious in broadening the advice requirement to the extent that advice (and therefore the option to transfer) becomes unavailable to, or uneconomic for, some members. It will be important to analyse the outcome of the changes to the advice requirement, not only to see how it has impacted on the numbers transferring, but also how it has affected the numbers seeking advice on whether to transfer in the first place.

We hope that you find these comments useful. Please do not hesitate to contact me if you would like to discuss any of the points raised.

Yours sincerely,

Alan Stewart
Chairman - The 100 Group Pensions Committee