The 100 Group

Please reply to:

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Pensions.Consultation2014@hmtreasury.gsi.gov.uk

Freedom and Choice in Pensions Consultation
Pensions and Savings Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Sir,

Consultation: Freedom and Choice in Pensions

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 represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2011 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.

We support the proposals for increased flexibility for DC pension scheme members and believe that this could be a significant step in encouraging people to save more for their retirement. However, it will be important to get the legislative and practical details right. In particular, we strongly disagree with the proposal to ban transfers from DB to DC schemes. We do not share the Treasury's concern that permitting such transfers would have a significant impact on investment in corporate bonds.

Our response focuses on the key issues from the perspective of the companies represented by the 100 Group and we have therefore not answered all the questions asked in the consultation document.

A.1 The government welcomes views on its proposed approach to reforming the pensions tax framework.

As indicated above, we are in favour of the overall proposals to encourage flexibility, which we believe will make pensions more attractive to many savers. The ability to cash out small pots will be very attractive to both members and schemes, and calls into question the need for a pot-follows-member automatic transfer regime, given that an alternative solution for small pots is being introduced.
The consultation document is very light in its treatment of what are described as 'hybrid schemes', i.e. schemes with both DB and DC sections. It is very common for DB schemes to have small DC AVC sections associated with them, and it is not clear to what extent it is intended that this legislation should apply to them. It is not clear that providing guidance and/or full DC flexibility in respect of a small AVC pot is particularly useful, especially given that there is often an interrelation between the DB and DC sections in that the entitlement to tax-free cash may be calculated by reference to benefits under both sections.

We also think that early consideration should be given to the relationship between these proposals and the government's plans for long-term care.

1 Should a statutory override be put in place to ensure that pension scheme rules do not prevent individuals from taking advantage of increased flexibility?

We do not favour the idea of a statutory override under which all schemes would be required to provide the full range of flexibilities. Pension schemes come in many shapes and sizes and it is not appropriate to impose requirements to supply a complicated range of products on all schemes.

This may be an issue even for the largest employers. For example, even within the large DB schemes sponsored by 100 Group companies, there may be small DC AVC sections which represent a tiny fraction of the overall assets of the scheme. We do not think it would be helpful either to the scheme or to the member if the scheme were required to introduce complex drawdown options with associated administrative costs. It would also be likely to lead employers to move assets out of trust-based schemes into a contract-based environment.

We would, however, be in favour of a statutory override which allowed members to cash out their benefits at retirement or to access the full range of flexibilities by transferring out of the scheme to a provider which has the necessary expertise to provide the more complex options.

A.2 The government welcomes views on its proposed approach to supporting consumers in making retirement choices.

Given that employees generally change their employers several times within their working lives, individuals are likely to find themselves with several DC pension pots at retirement. Careful consideration needs to be given as to how the guidance guarantee will be delivered in such cases. Clearly it does not make sense for an individual with 20 separate pots to receive 20 individual guidance opportunities, but equally it is important that the burden of providing the guidance does not fall solely on the last employer (in particular because this could damage the employment prospects of individuals in their late fifties and sixties if the employer had to take on the cost of providing guidance relating to funds built up over the employee's whole career). However, the guidance that individuals receive must be able to relate to their entire pension savings (including any DB provision) if it is to be of any real use.

The provision of a one-off opportunity for guidance is a useful first step in helping members to make informed decision about their retirement options. Given that the cost of providing that guidance is likely to fall (directly or indirectly) on employers (unless it is to be paid out of members' pots), it is important that the scope of the guidance is carefully prescribed. We therefore do not think it is practical to insist on the guidance being provided face-to-face.

If it is decided that employers are paying for guidance, it should be made clear that this does not mean that employers are responsible for the guidance being received. If the process arrived at involves the employer selecting a firm to provide the guidance, the employer is likely to be under a duty of care to select a reputable firm with demonstrably robust internal processes to ensure a high likelihood of high quality guidance. However, that does not mean that pension scheme members should be able to claim against the employer in the event that they are dissatisfied with the guidance they have received.

It should also be possible for trustees and employers to provide additional guidance over and above the minimum prescribed by legislation, if they wish to do so.

There is also a clear need for wider financial education and information starting well before retirement, but we do not think that the costs of this should fall on employers. Typically, large employers will provide some pre-retirement information to active members, but this should remain on a voluntary basis.

6 Is the prescription of standards enough to ensure the impartiality of guidance delivered by the pension provider? Should pension providers be required to outsource delivery of independent guidance to a trusted third party?

We do not believe that either pension providers or IFAs should be responsible for providing the guidance. This should be entrusted to a trusted and impartial third party.

A.3 The government would welcome views on the options outlined in point 5.15, including their likely complexity, and the burdens they might place on scheme sponsors and HMRC.

The government should continue to permit DB to DC transfers. Banning transfers from DB schemes seems completely opposed to the stated policy of encouraging flexibility.

In our view, the government has overstated the likely number of DB to DC transfers that will happen. We expect the proportion of such transfers will continue to be relatively low (although it is possible that they will be more common than at present). We do not expect that many people would opt to transfer out of DB years before retirement and thereby take on investment risk before they need to. (In particular, we do not think that take-up rates for ETV exercises should be viewed as in any way a reliable indicator of the likely number of transfers that would happen in a business-as-usual environment after April 2015.)

The legislation currently places significant penalties on transfers after retirement as unauthorised payments (and we believe should continue to do so). In particular, we note that pension schemes usually hold gilts and corporate bonds mainly to back pensioner liabilities so retaining the effective prohibition on transfers of pensions in payment will help to minimise the impact on gilt and corporate bond holdings.

So, we think it is only amongst the cohort of people reaching retirement each year that we may see an increase in demands for transfers. Even so, for most people, we think the attraction of a DB pension will continue to exist, although there is no doubt that there will be some people who will transfer if the option is available.

The anecdotal experience of at least one company represented on the 100 Group is that requests for transfers have actually fallen since the Budget, i.e. there has not been a rush for the door even when there is a prospect of the option to transfer being taken away in the near future. This suggests that concerns about a large increase in the number of transfer values are misplaced.

We do not think that any of the intermediate options between the status quo and a full ban has merit.

9 Should the government continue to allow private sector defined benefit to defined contribution transfers and if so, in which circumstances?

Yes, in the circumstances currently permitted by legislation. See further our answer under A.3 above.

A.4 The government would welcome views on any potential impact of the government's proposals on investment and financial markets.

We believe that the impact of continuing to allow transfers from DB to DC will have only a very marginal impact on corporate bond issuers. There are relatively few corporate bond issuers compared to the demand for such investment, and we do not believe that continuing to allow DB to DC transfers will significantly change that relationship.

Given that we expect that there will be relatively few transfers from DB to DC pots other than perhaps at retirement, the demand for long-dated maturities of corporate bonds and gilts should continue from DB pension funds for some years to come.

I trust that these comments are useful. I look forward to discussing them further when we meet Charlotte Clark and Jonathan Leppen on 12 June.

Yours faithfully,

José Leo
Chairman
The 100 Group – Pensions Committee