Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Assets, Savings and Consumers
HM Treasury
1 Horse Guards Road
London
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25 October 2016

Dear Sir, Madam,

HM Treasury's consultation on introducing a pensions advice allowance

This is the response of the Financial Services Consumer Panel (the Panel) to HM Treasury's consultation on introducing a pensions advice allowance.

We agree with the government's proposal to restrict the pensions advice allowance to paying for regulated advice only.

However, the consultation paper does not put forward any evidence to support a figure of £500. We are not aware of any automated advice services currently that cost £500 or less. It is also unclear whether the government intends the allowance to be used for advice only, or for advice plus transaction costs.

There are many different types of advice that fall within pensions accumulation and decumulation and the costs of these will differ. For example, £500 may be enough to advise an individual on fund choice when joining a pension scheme for the first time, but is unlikely to cover advice on retirement options unless the individual has very straightforward requirements. With a 'headline' figure of £500, consumers will expect to be able to obtain advice for that amount and will become frustrated if they cannot. Or they may not realise that they will have to 'top up' the cost of advice in some circumstances.

We believe HM Treasury needs to investigate the market further, across the spectrum of holistic and transactional needs, before deciding what the advice allowance should be. The Panel will shortly publish research on online investment services and advice, which we would be happy to discuss with you.

As we said in our response to the Financial Advice Market Review Call for Evidence[1] consumers often do not seek advice because they do not understand the cost of the advice or the value they will be getting from it. It is currently very difficult for an individual to compare the cost of advice between advisers and more also needs to be done to provide consistent information on advice costs in an easily accessible format.

Finally, we note the government's concerns regarding potential fraud and the means of mitigating this risk. However, we believe a more effective way to prevent potential fraud

[1] https://www.fs-cp.org.uk/sites/default/files/financial_services_consumer_panels_response_to_famr_24122015.pdf

would be if the onus is on providers paying out the allowance to check whether the adviser they are making the payment to is authorised and regulated.

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel

Consultation Questions

The Panel has only answered questions where it has substantive comments.

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

The government's proposed design in terms of how the transaction will be carried out is sensible as it will use the existing systems and processes to facilitate use of the Allowance.

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?

We do not believe a limit should be placed on the number of times an individual can withdraw an allowance. Individuals are likely to need advice several times during their working lives, again just before retirement and potentially throughout retirement. If the government has allowed an individual discretion to access their pension savings in order to pay for the advice then it should not fetter this discretion.

The government has argued there should be a limit on the number of times consumers can use the pensions advice allowance due to the risk of fraud through individuals imitating advisers, but a fraud could be committed on the first use of the allowance. The government should instead focus on practical means of preventing fraud – for example, by placing the onus on the pension provider to ensure the adviser it will release funds to is authorised and regulated.

The government also says without a limit wealthier consumers could receive and use the allowance many more times as they could afford to do so. Whilst this is true, wealthier clients can already pay for and receive advice many more times without resorting to funds from their pension pot. If consumers are paying a monthly or annual charge to their pension provider, then arguably there should be no limit on the number of times they can access the pension advice allowance.

Question 4 What age should the allowance be available from?

Individuals are likely to need pension advice at different stages of their life and we do not believe there should be a minimum age for using the advice allowance. Someone who is starting to save into a pension arguably needs advice as much as someone who is looking to access their pension.

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

Before the government considers increasing awareness of the allowance it needs to make it absolutely clear what the allowance can and cannot be used for – for example, it is not clear whether it is for advice only or if it can also be used to execute any recommended transactions.

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

There is a higher potential for fraud with more vulnerable consumers which is why the onus should be on providers to check the allowance is being paid to regulated firms.

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

We fully support the government's decision to restrict the use of the pensions advice allowance to fully regulated advice only.

We also agree it is sensible to allow individuals to access the pensions advice allowance where they need advice on a combination of defined benefit and defined contribution schemes, but that it would be too burdensome for Trustees where an individual requires advice on a defined benefit scheme only.

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.

We are surprised by the statement in the consultation that: *Trustees may also be concerned that they would be liable for the advice given by an adviser paid via the Pension Advice Allowance.* We cannot see why this should be the case, or be any different to pension providers facilitating the charge. If there is any uncertainty then TPR can reassure Trustees that payment of the Pension Advice Allowance to a freely chosen advice firm does not constitute advice. For it to be advice there must be a personal recommendation. Trustees are not providing a personal recommendation – the advice firm is.

We cannot see that Trustees of occupational DC schemes, where funds are ear-marked, would necessarily have more complexities to deal with in realising the Pension Advice Allowance, however we welcome the fact that the government has sought views from Trustees on the matter.

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

We cannot see how facilitated adviser charging could not be applied to automated advice services in the same way as it is applied to more traditional advice services currently. In building an automated service the most up to date technology can be used and therefore the ability to facilitate adviser charging should be built into the process from the outset. This will, in theory, pose less of a problem that more traditional services updating their business models to accept facilitated adviser charging.

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

As mentioned above in response to question 3, it would be helpful for the government to put the onus on the pension provider to ensure the adviser it will release funds to is authorised and regulated.

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?

We would suggest that more research is needed before the level of the Pensions Advice Allowance is set. We would refer you to our comments on page 1 and 2 of this response. We are also due to shortly publish our own research on online investment services and advice, which we would be happy to discuss further with you once it has been completed.