



HM Treasury

Freedom and choice in pensions



Freedom and choice in pensions

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

March 2014

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Foreword

The government's long-term economic plan is providing the foundations for the UK's future economic security. A key part of this is to foster a new culture of saving. Saving must be flexible and attractive in order to encourage people to take greater responsibility for their financial future. And people need to have access to the best advice. Nowhere is this more important than in saving for a pension and planning for retirement.

When this Government took office the pensions system was not working. The State Pension was complex, opaque and did not give pensioners the guarantee they needed on the value of their entitlement. The State Pension age did not reflect the great changes to longevity we have seen over the generations. Too many individuals did not have a pension. Our policies are addressing all these failings.

But there is more to be done. Our next priority is to change the way that people in retirement can access their pension savings. The current system effectively forces the majority of individuals with defined contribution savings to buy an annuity. But times have changed, and a new solution is needed.

As the nature of retirement changes, annuities are no longer the right product for everyone. People are living longer and their needs are becoming more varied. Our reforms to the State Pension and the triple lock guarantee give certainty to pensioners on what they will receive from the state. The introduction of Automatic Enrolment will dramatically increase the amount of pension savings. The landscape has completely changed.

Moreover, the annuities market is currently not working in the best interests of all consumers. It is neither competitive nor innovative and some consumers are getting a poor deal. It is time for a bold, modern and progressive reform. This Government backs savers and wants to give them the freedom and choice to get the best deal possible.

In other countries, such as the United States, Australia and Denmark, the government does not impose restrictions on how people access their pension savings at the point of retirement. Instead, savers are trusted to manage their own finances.

In this Government's view, the State should not be imposing restrictions on individuals who have made tough choices to save for the future. So from next year, there will be no restrictions on people's ability to draw down from their defined contribution pension pots after age 55. The tax rules will be drastically simplified to give people unfettered, flexible access to their pension savings.

As a transitional measure, the government will also introduce significantly more flexibility into the existing system immediately to allow people greater choice over how they access their defined contribution pension savings.

These reforms will introduce choice for retirees over how they access the pension savings they have worked hard to save. But choice on its own is not enough. Consumers need to be able to make informed decisions. We will therefore guarantee that individuals approaching retirement will receive free and impartial face-to-face guidance to help them make the choices that best suit their needs. We will introduce a new duty on pension providers and schemes to deliver this 'guidance guarantee' by April 2015. We have asked the Financial Conduct Authority to make sure this guidance meets robust standards, working closely with consumer groups. And we will make available a £20 million development fund to get the initiative up and running.

This Budget announces support for savers at every stage of their lives, from the most significant expansion of the ISA system since it was introduced, through to further support for low earners by reducing the starting rate of savings tax.

Together with the changes to the taxation of pensions outlined in this document, these major reforms amount to the biggest changes to savings for a generation. New products will need to be developed and markets will need to adjust. If sold well, annuities have the potential to be a good product and I expect them to continue to play a significant role. But I want people to be able to decide what is right for them. We cannot expect people to save responsibly for their retirement if they do not believe they will get value for money from their savings when they come to access them.

This is the most fundamental change to how people can access their pension in nearly a century. I encourage you to take the opportunity to contribute to the consultation.

A handwritten signature in black ink that reads "George Osborne." The signature is written in a cursive, flowing style.

George Osborne

Chancellor of the Exchequer

March 2014

1

Introduction

1.1 The government's long-term economic plan is working. The economy is growing again, record numbers of people are in work and the deficit is falling.

1.2 This consultation forms a key part of a wider set of reforms announced at Budget 2014 which are targeted at supporting savers. As the economy continues to recover and confidence returns, the government is keen to ensure that individuals who want to save are supported in doing so, whether they are saving a deposit for a house, to start a family or for their retirement. Budget 2014 therefore announces that the government will:

- from 1 July 2014, radically reform the ISA into a significantly simpler and more generous product, with an overall limit of £15,000 for cash and stocks and shares
- from April 2015, abolish the 10% starting rate for savings income, and replace it with a 0% rate. The band will then be extended from £2,880 to £5,000, to support the lowest earners by removing the tax they pay on their savings income
- from January 2015, launch a new range of fixed-rate market-leading savings bonds for people aged 65 or over to be offered through National Savings and Investments (NS&I)

1.3 The proposals outlined in this consultation build on these reforms by radically increasing the choice and flexibility available to individuals when they come to access their defined contribution pension savings.¹

1.4 One of the most important life stages which everybody has to save for is their retirement. This Government has made security in retirement a central part of its reforms since 2010 through the introduction of Automatic Enrolment, the single tier pension and the triple lock. Alongside these changes, it is important to ensure that the pensions system is fit for the challenges of the twenty-first century; it needs to empower people to save and to exercise choice over how they access their pension at retirement.

1.5 The focus of the government's private pension reforms so far has been on the accumulation phase, when people are saving for their pension. While this has been crucial to ensuring that people have an appropriate level of savings when they reach retirement, the government recognises that this is only part of the story. In order to have confidence to save, people need to know that they will be able to get value for money from their savings when they come to access them. The reforms we have made to the accumulation phase of pension saving, alongside changes in society such as increased life expectancy, create a new context for considering how people access their hard earned savings.

1.6 This Government has already introduced greater flexibility and choice for people in retirement by removing the requirement to convert a pension pot into an annual income stream, or "annuity", by age 75. "Flexible drawdown" has also been introduced, allowing those with a guaranteed income of over £20,000 per year in retirement access to their pension savings in a

¹ When this document is describing the tax rules and proposed changes to those rules, the term "defined contribution" should be taken to mean both money purchase and cash balance savings as those terms are defined for tax purposes in section 152 Finance Act 2004 (meaning of "arrangement")

more flexible manner. The annual withdrawal limit for “capped drawdown” has also been raised from 100% to 120% of an equivalent annuity, allowing those who would otherwise have had to purchase an annuity to invest their pension pot and make withdrawals that suit their needs.

1.7 These steps have been important and successful, but given the changing shape and nature of retirement, the government now needs to go further in order to truly embed a culture of flexibility and quality in pension provision. With the right consumer guidance, advice and support, people should be able to make their own choices about how to finance their retirement. Everybody’s circumstances are unique and it should not be for the State to dictate how someone should have to spend their savings.

1.8 The Budget therefore announces a radical set of reforms which will allow people more choice over how they access their defined contribution pension savings. From April 2015 the government proposes to change the tax rules to allow people to access these savings as they wish at the point of retirement, subject to their marginal rate of income tax (rather than the current 55% charge for full withdrawal).

1.9 Those who want the security of an annuity will still be able to purchase one. Equally, those who want greater control over their finances in the short term will be able to extract all their pension savings in a lump sum. And those who do not want to purchase an annuity or withdraw their money in one go, but would prefer to keep it invested and access it over time, will be able to purchase a drawdown product.

1.10 The government recognises that under this new tax system, people will need the right support and guidance to make decisions that best suit their evolving personal circumstances. That is why the government will introduce a new guarantee that everyone with a defined contribution pension will be offered free and impartial face-to-face guidance on their financial choices in retirement when they retire. The government will introduce a new duty on pension providers and trust-based pension schemes to deliver this ‘guidance guarantee’ and this will take effect by April 2015.

1.11 The Budget also announces some initial changes to the current system which pave the way for more radical reform. From 27 March the current rules on how people access their pension will be changed. The minimum income requirement for flexible drawdown will be reduced from £20,000 to £12,000. The amount of total pension wealth, all of which an individual can take as a lump sum, will be increased from £18,000 to £30,000. The maximum size of a small pension pot which can be taken as a lump sum, regardless of total pension wealth, will also be increased from £2,000 to £10,000, and the number of personal pots that can be taken under these rules will be increased from two to three. The capped drawdown limit will also be raised from 120% to 150% of an equivalent annuity. These changes, as they apply to defined contribution pension savings, will be in place until April 2015, when the government plans to introduce the more radical reforms set out in this consultation.

1.12 While the government is keen to make sure that people have increased choice and flexibility at the point of retirement, it is also important the right incentives are in place for people to accumulate sufficient pension savings to support them in retirement. This is why this consultation also includes a proposal to raise the age at which an individual can take their private pension savings under the tax rules from 55 to 57 in 2028, at the point that the State Pension age increases to 67.

1.13 These changes will have implications for a wide range of parties with an interest in pensions, including employers, consumer groups, the pensions industry, providers of existing retirement income products and individuals themselves. The government is therefore keen to hear from all stakeholders as part of the consultation process. The government is also keen to

engage with interested parties on how best to achieve its policy aims through legislation and intends to publish the draft legislation for a short technical consultation prior to introduction of the legislation that will enact these changes.

2

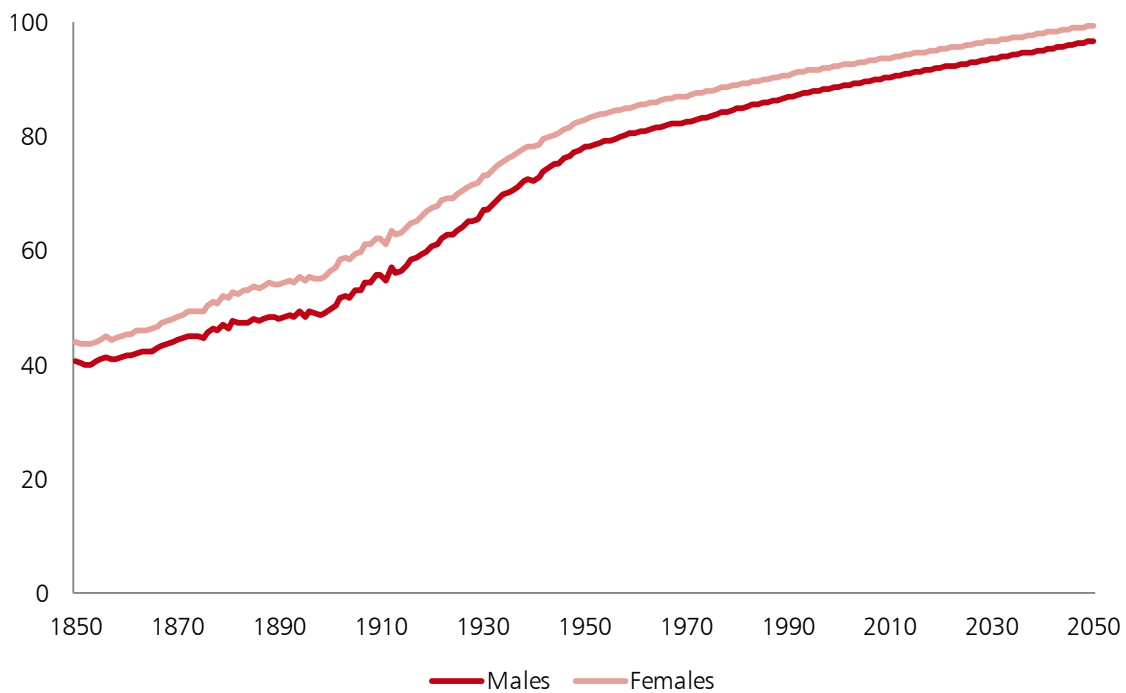
The changing nature of retirement

2.1 Over the past few decades retirement has changed significantly. No longer is it seen as a period where people are relatively inactive. Instead, retirement is now more commonly a phase involving a more active existence, and as a result people's needs have changed.

2.2 The biggest shift over the past few decades has been a significant increase in life expectancy. When the basic State Pension was introduced in 1948, a man reaching age 65 could expect to live for only 12 years, and a woman for 15 years. People are now living far longer. A man reaching age 65 in 2012 can now expect to live for 21 years, and a woman for 24 years.¹

2.3 Over the next few decades, this trend is set to continue. The Office for National Statistics forecast that around one third of babies born in 2013 will live to 100.² These changes mean that people will be working for longer, but it also means they are likely to be in retirement for longer.

Chart 2.A: Cohort expectation of life at birth according to historic and projected mortality rates, persons born 1850–2050, England and Wales (male and female)



Source: Office for National Statistics

2.4 Many people are still in the workplace after the age of 65. In 2013 over a million over 65s were still working. Of those, 324,000 were aged over 70 and 32,000 were over 80.

¹ Office for National Statistics

² Office for National Statistics

Furthermore, two thirds of workers over 65 are part-time, meaning that their income needs are no longer as consistent through their retirement.³

2.5 This points to the need to give people much more choice about how and when they access their defined contribution pension savings so they can manage their finances to suit their individual circumstances.

The support provided by the State

2.6 Over the course of this Parliament the government has made significant changes to the state support on offer to pensioners. The immediate priority was to protect existing pensioners during the uncertain economic conditions this Government inherited. This is why the triple lock was immediately introduced, to ensure that the basic State Pension increases each year by the higher of average earnings growth, inflation, or 2.5%. This policy means that pensioners with a full basic State Pension will be £8.50 per week better off from April 2014 than if the basic State Pension had been uprated by earnings since 2011-12.⁴

2.7 The State Pension system is also being transformed to make it less complicated and opaque. Under the old system, individuals did not understand how the earnings-related parts of the system worked and it was difficult for them to calculate what their entitlement in retirement was likely to be. Means-tested benefits added a further layer of complication and made the incentives to save unclear.

2.8 This is why the single tier pension will be introduced for people reaching State Pension age on or after 6 April 2016. It will be a flat-rate payment set above the basic level of the means-test, allowing the abolition of the means-tested Savings Credit, which is widely misunderstood. Some of the most complicated areas of pensions policy, such as the ability for people to contract out of the State Second Pension, will also end.

2.9 The introduction of the single tier pension provides pensioners with much greater certainty over the state support they will receive in retirement, reduces the likelihood they will require means-tested benefits and makes the incentives to save for retirement much clearer. The main impacts of the single tier reform are:

- **The large majority of pensioners (over 80%) will receive the full single tier pension** by the mid 2030s. This will mean that working age people will have a much clearer idea of what the State Pension will be for them and allow them to make plans to save if they want to retire on more than that
- **If they do save, many will be able to keep more of their savings.** The proportion of single pensioners on marginal deduction rates of 20% or less will improve significantly, particularly among the poorest fifth of pensioners, so they can keep more of any additional savings
- **Eligibility for Pension Credit for single tier pensioners will be halved** compared to the current system in the first few years, and will fall to around 5% by 2060
- **Parity for women's State Pension outcomes will be delivered fifteen years sooner** than under the current system

2.10 These changes will take the State Pension back to the original vision of a simple system based on contributions. It will provide people with a secure income in retirement and protect

³ Office for National Statistics

⁴ Department for Work and Pensions

against poverty. The foundation upon which people will be able to make decisions about their savings will therefore be much clearer.

Building additional support through workplace saving

2.11 Alongside changes to the state support on offer to pensioners outlined above, the government is also taking forward wholesale reform of the pensions people receive from their employer. Many of today's pensioners are retiring with defined benefit pensions. Defined benefit pension schemes are those in which the rules specify the rate of benefits to be paid. One of the most common types of defined benefit scheme is one in which the benefits are based on the number of years of pensionable service, the accrual rate and final salary. Defined benefit schemes provide people with security in retirement, but also certainty during an individual's working life, because the promise of what they will receive during retirement is clear.

2.12 The government remains supportive of defined benefit schemes. However, these schemes have been in decline in recent years as the cost of providing them has increased substantially. This has largely been driven by changes in life expectancy, low asset yields and accounting standards.

2.13 In recent years, employers have therefore increasingly looked to provide defined contribution pension schemes to their employees. A defined contribution pension is one in which the benefits are determined by the contributions paid into the scheme and the investment return on those contributions (less charges). All personal pensions are defined contribution pensions. Under a typical defined contribution arrangement, an individual will pay a proportion of their salary into a pot which will often be matched by an employer contribution, both of which will receive tax relief from the government.

2.14 As the Chart 2.B shows, the proportion of people who are saving for their retirement in a pension, whether through defined contribution or defined benefit, has fallen over the past fifteen years. This is why, from October 2012, the government introduced Automatic Enrolment, a reform that gives all employers a new duty to automatically enrol all eligible employees into a qualifying pension scheme. Since this reform was introduced, more than 3 million workers have been automatically enrolled across nearly 10,000 employers.⁵ Once fully implemented, Automatic Enrolment will transform the culture of saving, increasing the number of individuals newly saving or saving more in a workplace pension by around eight million, and increasing the amount that is being saved in workplace pensions by around £11 billion per year.⁶

2.15 The government is also exploring ways to enable innovation in the pensions market to support providers and employers who want to offer something in the middle ground between defined contribution and defined benefit where risk is shared between employers, individuals and other parts of the industry, such as insurers. The Department of Work and Pensions recently consulted on "Defined Ambition" and is currently considering the responses to the consultation.

⁵ The Pensions Regulator, March 2014. At: <http://www.thepensionsregulator.gov.uk/press/pn14-05.aspx>

⁶ Department for Work and Pensions, July 2012. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf

Chart 2.B: Employee membership of a workplace pension: by pension type, 1997 to 2012, United Kingdom, percentages



Source: Office for National Statistics⁷

2.16 Automatic Enrolment will mean that in the future, far more people will be retiring with some form of defined contribution pension savings than in the past. These people will then need to make a decision about how to use these savings to fund their retirement.

The evolution of the annuities market

2.17 At the moment, the majority of people (75%) who reach retirement with defined contribution pension savings use them to purchase an annuity – a financial product which provides a regular income, usually until death.⁸

2.18 Annuities are attractive to many because they give a guaranteed income for the entire lifetime of the policy holder and the policy holder does not bear any investment risk. The returns to the policy holder are not dependent on the performance of the underlying assets, which provides certainty and security for individuals.

2.19 The value of the income a person receives from an annuity in retirement is dependent on a number of factors, but most importantly the overall size of their pension pot and the annuity rate offered by the provider selling the annuity product. Rates are typically decided using factors including life expectancy, interest rates at the time, age and health.

2.20 There are a number of different types of annuity available on the market, which are explained in Box 2.A. The product most commonly purchased by those with defined contribution pension savings is an individual lifetime annuity, which can either be single life

⁷ Pension is arranged through an employer, main pension only. Results for 2005 are based on a new questionnaire and may not be comparable with earlier results. In 2011 ASHE replaced the Standard Occupational Classification 2000 (SOC 2000) with the Standard Occupational Classification 2010 (SOC 2010). The change to SOC 2010 has affected the methodology by which the survey is weighted. Rounded to the nearest percentage, the proportions in this table are the same whether the estimates are calculated on the old or new SOC basis

⁸ HMRC analysis of ONS Wealth and Assets Survey and Association of British Insurers data

(where the annuity pays out until the individual's death) or joint life (where the annuity continues to pay out to the individual's spouse or partner after the policy holder has died). Impaired life or enhanced annuities are also available to individuals who have a reduced life expectancy because they suffer from certain medical conditions, are a regular smoker or have spent a large part of their working life in a hazardous occupation. These products have grown in popularity over the past five years.

2.21 Over recent months, attention has increasingly focused on the annuities market and its impact on retirement incomes, and more evidence has come to light on the range of problems in the market. The evidence suggests the market is not operating in the best interests of consumers.

Box 2.A: Different types of annuity

- **Level annuities:** provide the same level of payments for the whole of retirement. Their real value is eroded over time by inflation
- **Index linked annuities:** provide payments which rise over time in line with some measure of inflation. However, the initial payments will be lower than for a level annuity
- **Escalating annuities:** provide payments rising over time by a fixed amount every year. Again, the starting point will be lower than for a level annuity
- **Fixed term annuities:** provide payments for a set number of years and a maturity amount at the end of the specified period
- **With profits annuities:** provide payments linked to investment performance
- **Immediate needs annuities:** provide a guaranteed income for life to fund long-term care, either at home or in a care home

2.22 On 14 February 2014 the Financial Conduct Authority (FCA) published a thematic review into annuities. A summary of its findings are in Box 2.B. The concerns that the FCA's thematic review raised about the workings of the annuities market were stark enough for it to announce that it would be conducting a full Market Study into the retirement income market. The government welcomes the FCA's decision to conduct the market study and looks forward to its findings and the remedies it may propose.

Box 2.B: FCA's Thematic Review Findings⁹

A recent review of the annuities market by the FCA concluded that some parts of the market are not working well for consumers. Specifically, the FCA identified the following concerns:

- The majority of consumers (60%) do not switch providers when they buy an annuity, despite the fact that 80% of these consumers could get a better deal on the open market, many significantly so
- The aggregate benefits consumers miss out on by not shopping around and switching is the equivalent of between £115 million and £230 million of additional pension savings
- In part consumers miss out on the benefits available from shopping around and switching due to their lack of engagement in pensions and annuities, the confusing trade-offs they face and the impact of behavioural biases that makes it difficult for consumers to make the right choices
- There is an incentive for providers to focus on retaining their existing pension customers, as overall the estimated levels of expected profitability of standard annuity business sold to existing pension customers is more than the expected profitability of annuity business sold on the open market
- The difference in retention rates (i.e. proportion of customers annuitising with their pension provider rather than switching) between firms varies widely. Some firms have relatively high retention rates and have active retention strategies that may increase customer loyalty and reduce the propensity to shop around
- There are particular groups of consumers where it appears that the market is not working well. There is an apparent lack of choice and ability to switch for those with small pension funds and lower annuity rates available to these consumers generally, which is likely in part to be due to the fixed costs of providing an annuity representing a larger proportion of the customer's funds

2.23 The FCA's work highlighted the lack of engagement from consumers at the point of retirement and also the prevalence of consumer inertia in the market. At present, the default choice for those with defined contribution pension savings is to purchase an annuity from their existing pension provider rather than to shop around. As noted above, the majority of consumers (60%) do not switch providers when they buy an annuity, despite the fact that 80% of these consumers could get a better deal on the open market. This may be partly because consumers do not know that they have this option, but also because of the lack of other options available to them.

2.24 Currently the choice for consumers is constrained. At the point of retirement they are choosing between providers offering the same product (which may not suit their needs) rather than between a range of products. It is therefore unsurprising that many people's default choice is to use their full pot (minus their lump sum) to purchase an annuity from their pension provider.

2.25 The government is clear that, in a well-functioning marketplace, annuities can be good products. For many they remain the best method of ensuring a secure income in retirement. However, the FCA's findings point towards the importance of stimulating competition within

⁹ Financial Conduct Authority, February 2014. At: <http://www.fca.org.uk/static/documents/thematic-reviews/tr14-02.pdf>

the annuities market, and also the need to stimulate innovation and the development of new products that better suit people's changing needs.

2.26 The current tax rules stifle innovation in the retirement income market, leaving pension savers with very little choice over how to spend or invest their defined contribution savings. This has contributed to consumer inertia and a lack of engagement. By increasing the choices people have at retirement, and providing them with the right support to make the choice that is right for them, consumer behaviour will change and a more competitive and dynamic retirement income market will emerge.

Summary

2.27 In the past annuities only needed to support people for a short period in retirement. As people have started to live longer, annuity rates have reduced to the point that it is not clear they remain the correct product for everyone at the point of retirement, despite being the only realistic option for many.

2.28 With the introduction of Automatic Enrolment, which will result in a large increase in the number of people with defined contribution pension savings, these are important issues that the government needs to address. There is a risk the lack of choice that people currently have at the point of retirement will undermine confidence in longer term saving.

2.29 The introduction of the single tier pension will also significantly change the state support on offer to pensioners, providing greater certainty of their income and lifting a significant number above the level at which they are eligible for means-tested benefits.

2.30 Thus, there is a strong case for the government to change its policy on how defined contribution pension savings are used in retirement and simplify the tax rules to increase the choice available to those with defined contribution pension savings. This will empower consumers to make their own choices and stimulate innovation and competition in the market.

3

A new tax framework for retirement

3.1 The government is announcing the creation of a new tax framework for retirement. As Automatic Enrolment is implemented and the shift to defined contribution continues, the number of people facing a choice about how and when to access their pension savings will increase.

3.2 It is therefore right that the government ensures savers have choice over how to access their defined contribution pension savings so they can make a decision that is right for them. It is understandable that people who have saved throughout their working lives want to be able to decide for themselves how to use their pension savings.

The current tax framework

3.3 Broadly speaking, the purpose of the tax framework for pensions is to incentivise people to save for their retirement and then use these savings to secure an income when they reach retirement. The tax treatment of pension savings therefore follows an “exempt, exempt, taxed” (EET) model:

- **(Exempt).** Pension contributions by individuals and employers receive tax relief and employer contributions are exempt from national insurance contributions (NICs), subject to both an annual allowance and a lifetime allowance
- **(Exempt).** No tax is charged on investment growth from pension contributions
- **(Taxed).** Pensions in payment are taxed as other income, but individuals are able to take up to 25% of their pension fund as a tax-free lump sum on retirement

3.4 The basis of the government’s current policy towards the use of tax-relieved pension savings was first established in Finance Act 1921, which introduced the “mandatory annuitisation of pension funds”. This principle was extended in Finance Act 1956, when a requirement to annuitise between the ages of 60 and 70 was introduced. The upper age limit was then increased to 75 in the 1976 Finance Act.

3.5 From 1995, members of defined contribution schemes have been able to draw an income directly from their pension fund as an alternative to purchasing an annuity. This is known as “capped drawdown”. The maximum withdrawal of income that an individual can take from a capped drawdown arrangement has changed over time, but is currently 120% of the equivalent annuity that could have been bought with the fund value.

3.6 In 2011, the requirement to annuitise by age 75 was removed and “flexible drawdown” was introduced. Flexible drawdown allows an individual to withdraw from their defined contribution pension savings however they wish (subject to their marginal tax rate) as long as they can demonstrate that they have a guaranteed minimum income in retirement of £20,000. These reforms were designed to support the government’s objective of re-invigorating private pensions saving, by giving people greater flexibility to choose the retirement options that are best for them.

3.7 However, these changes only provided flexibility for a minority of people, and the tax rules are still structured around the principle that the majority should use their defined contribution

pension savings to secure a regular income in retirement. This is to ensure they do not fall into poverty, or fall back on means-tested benefits.

3.8 Due to the piecemeal reforms that have taken place over the years, the current tax framework for how people can access their defined contribution pension savings has become very complicated. Box 3.A provides an overview of these rules and demonstrates that the system currently offers very little choice or flexibility. This means the default choice for most people is to buy an annuity.

Box 3.A: What are the current tax rules for accessing defined contribution pension savings?

Currently, the options open to you depend on the amount of defined contribution pension savings you have built up during your working life, your age and your pension scheme rules.

- If you are aged 60 or over and have total pension savings of £18,000 or below, you are able to take this as a lump sum. 25% of this is tax free, and the rest is charged at your marginal rate of income tax
- If you are aged 55 or over and can demonstrate that you have a guaranteed income in retirement of over £20,000 per year, you are able to enter flexible drawdown. This allows you to withdraw the rest of your defined contribution pension savings however you wish (subject to your marginal rate of income tax)
- If you are aged 55 or over and have more than £18,000 of total pension wealth, but not enough to secure a guaranteed income in retirement of over £20,000, you can either purchase an annuity or enter capped drawdown
- Under capped drawdown, you can withdraw a pension of up to 120% of the value of an equivalent annuity per year, while the rest of your pension pot remains invested
- Whether you take an annuity or enter drawdown, you will still be entitled to take 25% of your fund as a tax-free lump sum
- Alternatively, you can withdraw your pension fund as cash, but you will be subject to a 55% charge and your scheme will have a 15% charge
- Regardless of your total pension wealth, you are able to take up to two personal pension pots and an unlimited number of occupational pension pots each worth £2,000 or less as a lump sum. 25% of this is tax free, and the rest is charged at your marginal rate of income tax

3.9 In many ways the existing system is unfair. It rewards those who have only saved a small amount, or a very large amount, by providing them with full flexibility and choice over how they take their pension savings, while restricting the choices of those who have saved a moderate amount.

3.10 The current system is also extremely complicated and can be inaccessible for people. How and when you are able to access your pension savings relies on a number of factors such as your age, your total pension wealth or your individual circumstances. It is also dependent on what your scheme rules allow (as outlined in Box 3.B). In many cases, it is difficult for people to work out what they can or cannot do with their pension savings. Understandably, this makes it hard for people to make the choice that is right for them.

Box 3.B: Pension scheme rules versus the tax rules

When and how you are able to take your pension depends on the interaction between the tax rules and your pension scheme rules. Many pension scheme rules specify an age at which you are entitled to take your benefits, usually equal to or greater than the age specified in the tax rules (currently 55), and some currently place restrictions on whether you are able to take your pot under either the trivial commutation rules or small pot rules.

If the age at which you are entitled to take your pension under your scheme rules is **below** age 55 (usually under older pension schemes) you may incur a tax charge of up to 55% when you take your pension, unless you have 'protected rights'. You may have 'protected rights' if, as at 5 April 2006, your scheme rules entitled you to take your pension before age 55.

If the age at which you are able to take your pension under your scheme rules is **above** age 55, you will not be able to take your pension until you reach that age. However, when you come to take your pension, you should be able to take your pension under the rules outlined in Box 3.A.

Under the proposed new tax framework, the government is keen that scheme rules do not prevent an individual from accessing their pension flexibly, should they wish to do so.

A new tax framework

3.11 The government wants to make the system for how people take their defined contribution pension savings much simpler and allow them a greater amount of choice about how they access their savings. This is why from April 2015 the government proposes to introduce a new system for how defined contribution pension savings are taxed when they are accessed in retirement.

3.12 As noted in Box 3.A, the current system only allows an individual full flexibility over how they can access their defined contribution pension wealth if they have either:

- **less than £18,000 of total pension savings.** These people can withdraw all of their pension as a lump sum, subject to their marginal rate of income tax
- **a guaranteed annual income in retirement of over £20,000** (the equivalent of a pension pot of around £310,000 at today's annuity rates).¹ These people are able to enter flexible drawdown, where they can withdraw as much as they like from their defined contribution savings, subject to their marginal rate of income tax

3.13 Under the new system, everyone will be entitled to flexibility, regardless of their total defined contribution pension savings. Individuals will be able to draw down on these pension savings whenever and however they wish after the age of 55. Any amount they draw down will be treated as income and therefore subject to their marginal rate of income tax in that year rather than the current 55% charge for full withdrawals. The tax-free pension commencement lump sum (usually 25% of an individual's pot) will continue to be available. The rules on the age at which you can take your defined contribution pension will also be simplified so that all individuals will have access to their savings from age 55, subject to their scheme rules. The current system, and how it compares to the new system, is outlined in Diagram 3.A.

¹ This is a stylised assumption based on an individual with a full basic State Pension of £5,744 per year, who takes the maximum tax-free lump sum (25%) from their defined contribution pension pot and purchases a Single life, level, no guarantee annuity worth £14,256 per year (an annuity rate of 6.1%) at age 65. This will allow them to meet the minimum income requirement for entering flexible drawdown

3.14 When the new system is in place, the government will not prescribe a particular product which people are required to purchase or invest in when accessing their savings. It will be up to individuals to decide how they want to access them, either as a lump sum or through some sort of financial product:

- those who want greater control over their finances in the short term will be able to extract all their pension savings in one go, and invest them as they see fit. This flexibility will be particularly beneficial for those with a relatively small amount of overall defined contribution pension savings for whom buying an annuity or purchasing a drawdown product would not be in their interests
- those who continue to want the security of an annuity will be able to purchase one, either at the point of retirement, or at a later stage. This may be with either some or all of their defined contribution pension pot
- those who would prefer to keep their savings invested and access them over time will be able to purchase a drawdown product. However, unlike the current system, there will be no limits on the amount someone can withdraw from their drawdown arrangement each year, and there will be no minimum income requirement which people have to satisfy in order to withdraw from their pension

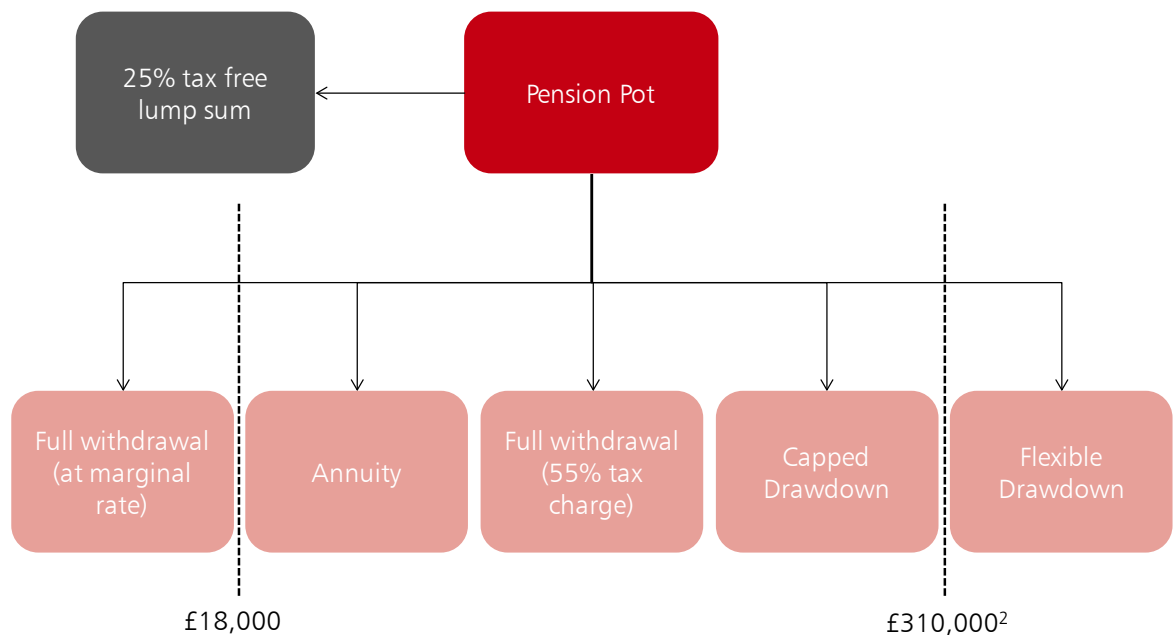
3.15 Box 3.C provides some sample case studies which demonstrate how people might be taxed under the new system depending on their circumstances.

3.16 As set out above, the new system will give people much more flexibility to plan for retirement, with the option of entering into a drawdown product or keeping their pension invested for longer. The government therefore wants to ensure the tax rules that apply for pensions on death continue to be appropriate under the new system. When the government removed the requirement to annuitise before the age of 75 in 2011, it also introduced a flat 55% tax charge for pension funds held at death in certain circumstances.

3.17 The 55% charge replaced a 35% charge for those under age 75 and aggregate tax charges of up to 82% for those over age 75. The government believes the tax rules that apply to pensions on death need to be reviewed to ensure they are appropriate under the new system. In particular, the government believes that a flat 55% rate will be too high in many cases given that everyone with defined contribution pension savings will now have the freedom to enter into drawdown rather than an annuity. We will engage with stakeholders to review these rules to ensure that taxation of pension wealth at death remains fair under the new system.

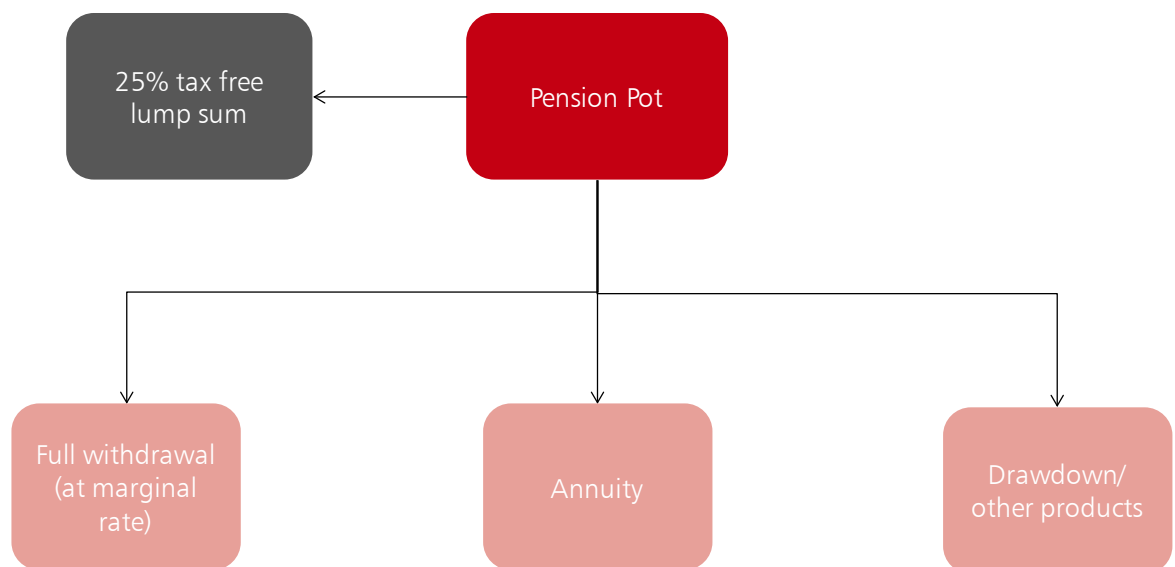
Diagram 3.A: Current tax system for accessing defined contribution pensions at retirement

Under the current system, people's choices are constrained by the size of their defined contribution pension pot. There is some flexibility for those with small and very large pension pots, but around three-quarters of those retiring each year purchase an annuity.



Future tax system for accessing defined contribution pensions at retirement

Under the new system, regardless of the size of their defined contribution pension pot, everyone will be able to choose any of the options in the below diagram. This will mean that everyone has access to full withdrawal, an annuity or drawdown, and potentially other products created by providers.



² This is a stylised assumption based on an individual with a full basic State Pension of £5,744 per year, who takes the maximum tax-free lump sum (25%) from their defined contribution pension pot and purchases a Single life, level, no guarantee annuity worth £14,256 per year (an annuity rate of 6.1%) at age 65. This will allow them to meet the minimum income requirement for entering flexible drawdown

Box 3.C: Sample case studies

How the new system will affect you will depend on your individual circumstances and whether you have an income from other sources. However, the case studies below seek to demonstrate how you might be affected by this change in the tax system. These are stylised examples intended to demonstrate the tax implications.

The amount of tax deducted from pension payments under PAYE will need to be reconciled by HMRC at the end of the tax year to ensure that the individual has paid the correct marginal rate of tax on all their income including any pension savings. Where the correct rate of tax has not been deducted the individual will receive a repayment of overpaid tax or will have to pay any additional tax due.

Case A

Ms A is 57 and has a salary of £45,000 per year from her employer. She has a defined contribution pension pot of £100,000. She chooses to cease contributing to her pension - takes her 25% tax-free lump sum (£25,000) and invests the remaining £75,000. At age 66 she retires and chooses to use her pot (which has now grown to £80,000) to purchase an annuity. She will therefore receive £5,200³ per year on top of her State Pension of £7,500.⁴ This means that she would be liable for the basic rate of income tax on £2,700 (based on a personal allowance of £10,000).

Case B

Mr C is 68 and has an income of £7,500 per year from his State Pension. He has a defined contribution pot of £40,000. He takes a tax-free lump sum of £10,000, and chooses to invest the rest through a drawdown product. He takes £2,000 from his drawdown fund each year. This keeps him below the personal allowance. He therefore pays no tax on his income.

Case C

Mrs C is 62 and has no other income, but does have a £20,000 defined contribution pension pot. She withdraws all £20,000 in one year and places £15,000 of this in her ISA. When withdrawing the £20,000 from her pension fund, she receives 25% (£5,000) tax free and pays no tax up to her personal allowance of £10,000. She therefore pays 20% tax on the remaining £5,000.

Case D

Mr D is 66 and has an income of £7,500 per year from his State Pension. He has a defined contribution pot of £100,000 and decides to take £55,000 from his pension pot, which includes his 25% tax-free lump sum (£25,000), to pay off his mortgage. Of the £30,000 above the lump sum, £2,500 will be taxed at 0% as, together with his State Pension, it falls within his £10,000 personal allowance. The remaining £27,500 would then be taxed at 20%. In year 2, Mr D takes the full £45,000 left in his pension pot. Assuming the tax thresholds remain unchanged in year 2, the first £2,500 and his State Pension will be taxed at 0%, the next £31,865 will be taxed at 20% and the final £10,635 will be taxed at the higher rate of 40%.

³ Based on a Single life, level, no guarantee' annuity of around 6.5%

⁴ This is a stylised assumption for demonstrative purposes. The starting level for single tier will be finalised closer to implementation. It will be set above the standard level of the means-test which in 2013-14 terms is £145.40 per week

3.18 The introduction of more choice for pension savers with some form of defined contribution savings presents an opportunity for providers of retirement income products. In particular, this reform will allow providers much greater freedom to innovate and create products and processes which better meet the evolving needs of consumers.

3.19 The shape of the market will therefore be driven by the choices consumers make, placing power back into the hands of savers. The government expects this to stimulate innovation and new competition in the retirement income market, with providers creating new products to satisfy individual consumer needs and meet new social challenges such as funding care later in life (as outlined in Box 3.D). It will also expand the market to allow further development of existing products, such as deferred annuities.

Box 3.D: Social Care Funding

The Dilnot Commission found that although the financial services industry already supports people to pay for their social care costs through products such as care annuities, it has the potential to play a larger role and offer people more choice – if the conditions are right.

In March 2013 the Department of Health asked the major firms and trade associations in this field to undertake a review of how the market could develop. This reported back in July 2013. The review identified that the financial products most likely to develop in the short term will leverage the assets people already have, specifically housing and pension wealth. These products could help people plan ahead for care, and would be in addition to the “point of need” annuities already available. Further, the industry does not expect there to be a single, comprehensive product solution but rather a range of products that can be used individually or in combination.

The Review also identified that allowing people to have more flexibility over when and how they take income from their retirement products could help them better plan for their care.

In response to the Review, the Department of Health and Association of British Insurers recently published a Statement of Intent regarding funding social care. This set out the government’s desire to work with the industry to ensure people receive appropriate information and advice and to create the right conditions for a larger market in financial products for social care.

The government expects that the proposed changes to the tax rules from April 2015 will allow industry much greater flexibility to develop new products which meet people’s social care needs and is keen to hear views from respondents about how the new tax rules could be designed to allow this.

3.20 At Budget 2014, the government is also announcing some immediate changes to the current system that will introduce a much greater level of flexibility for pension savers with defined contribution pension wealth. From 27 March 2014, the government will:

- reduce the minimum income requirement for entering flexible drawdown from £20,000 to £12,000
- increase the amount of total pension wealth which can be taken as a lump sum from £18,000 to £30,000
- increase the capped drawdown withdrawal limit from 120% to 150%

- increase the small pot limit (the amount of pension wealth that can be taken as a lump sum, regardless of total pension wealth) from £2,000 to £10,000 and increase the number of personal pots that can be taken under these rules from two to three

3.21 Over the course of the next year, these changes will allow those with some form of defined contribution pension wealth much greater choice and flexibility over how and when they access their savings. The government estimates that an extra 85,000 people will be eligible to access flexible drawdown, or take their pension wealth as a lump sum this year if they so wish.⁵ These changes, as they apply to defined contribution pension savings, will be in place until April 2015, when they will be superseded by the more radical reforms.

3.22 Under the new system, those who have already purchased an annuity will remain bound by the contract they have made with their annuity provider. However, those who are currently in drawdown should be able to benefit from these reforms, both in the short term through the immediate increase in the capped drawdown limit, but also in the longer term through the new, more flexible tax system.

3.23 The new system will see no changes to pensions tax relief during the accumulation phase of pension saving. The government believes that the fairest way to restrict pensions tax relief is to ration the amount of tax-privileged pension saving an individual can make. This is why the annual allowance and lifetime allowance will be reduced to £40,000 and £1.25 million respectively on 6 April 2014. This preserves incentives for everyone to save.

Changes to the minimum pension age

3.24 As noted in Chapter 2, this Government has transformed the state support that will be on offer to pensioners in the future with the introduction of the single tier pension. These changes will give pensioners greater certainty about their income in retirement and significantly reduce the number of pensioners on means-tested benefits.

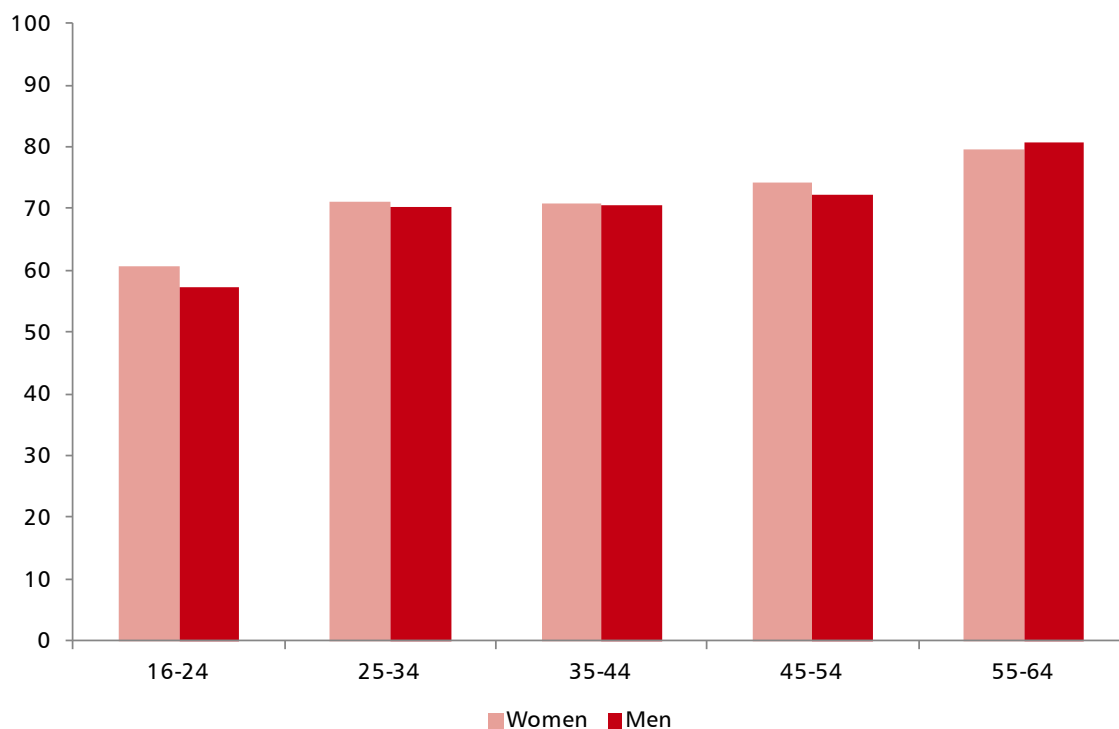
3.25 However, the government recognises that increasing the flexibility and choice available to those with defined contribution pension savings may increase the risk that people fall back on means-tested benefits later in life. There will be some commentators who believe that people cannot be trusted and that individuals will spend their money early in their retirement and fall back on state support, either as a conscious choice or because they underestimate how long they will live.

3.26 On the other hand, there may also be others who believe that those at retirement age are more capable of managing their finances than those below retirement age. As shown by Chart 3.A, data from the Wealth and Assets Survey suggests that the proportion of individuals with a “saving orientation” increases significantly with age.⁶ This may indicate that as they get older, people’s propensity to save, rather than spend their money, increases. There may be many reasons for this, including the fact that older age groups have fewer outgoings.

⁵ HMRC analysis based on ONS Wealth and Assets Survey

⁶ A saving orientation is defined as those with a moderate or strong orientation towards saving based on responses to the following statements: I tend to live for today and let tomorrow take care of itself; I prefer to buy things on credit rather than save up and wait; I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month. Adults aged 16-64 responding in person, excluding 'don't knows'

Chart 3.A Proportion of individuals with a saving orientation: by age and sex, 2008-10



Source: *Wealth and Assets Survey, Office for National Statistics*

3.27 There are a number of countries that provide individuals with greater freedom over how they access their pension wealth, most notably Australia, the United States and Denmark. It is difficult to apply experience from these countries directly due to different cultures of saving and different systems of state support. Evidence from these countries shows there will be many people who manage their money over their whole remaining lifetime. However, there is also likely to be a group of people who spend their pension wealth early in their retirement.

3.28 The most effective method of ensuring that people have an adequate income in retirement and so do not fall back on the state is to ensure that they have adequate pension savings. The current system provides people with strong incentives to save into their pension. Tax relief provided on pension contributions incentivises people to save, and Automatic Enrolment will in the future help ensure that people have some form of pension savings. The government's proposed changes to how people can access their defined contribution pension savings will also give people the confidence to save for the longer term because they will know that they will be able to exercise much greater control over those savings when they reach retirement.

3.29 In most circumstances, the current tax rules allow people to access their pension savings in some form from age 55. In a system where people are required to secure an income for themselves, the age when they choose to do so can be seen as largely a question for individuals. However, in a more flexible system it is important to ensure that providing people with access to their savings is balanced with the need to provide them with incentives to accumulate sufficient pension savings. The government also needs to reflect that people will be living and working for longer in the future.

3.30 The government therefore proposes to increase the age at which an individual can take their private pension savings at the same rate as the increase in the State Pension age. It is important people have the opportunity to plan properly for this change and so the government

proposes to wait until 2028 (when the State Pension age will rise to 67) to fully implement this change.⁷ From 2028, people will not be able to draw their private pension benefits without a tax penalty until age 57,⁸ whether or not this is the point at which they stop work. From then on, the minimum pension age in the tax rules will rise in line with the State Pension age so that it is always ten years below.

3.31 The government's desire is for the new system to be simple and transparent and therefore proposes that the new minimum age will apply to all pension schemes which qualify for tax relief. However, views are welcomed on whether this approach is correct, given the issues outlined in Chapter 5 of this consultation, and the recent reforms to pension ages in the public service pension schemes.

3.32 Moving the minimum pension age to 57 will not prevent pension schemes offering retirement at earlier ages to people who have severe health problems. Nor will this change prevent people stopping work younger than 57 if they can afford to do so using resources other than pensions. Many people already save for their retirement in other ways. Raising the minimum age for taking benefits from tax-privileged schemes is, however, an important signal, and provides people with extra time to accumulate their pension savings and aligns with the government's other pension reforms.

3.33 It is important to recognise that the age at which you can take your pension savings under the current rules differs depending how you plan to access them. For example, if you want to buy an annuity, you are able to do so from age 55 (subject to your pension scheme rules). However, if you have total pension savings below £18,000 and want to take these savings as a lump sum you have to wait until age 60. Under the new system, people will be able to access their defined contribution savings from age 55 in all circumstances, rising to 57 in 2018. This is a significant simplification of the current rules. However, in certain circumstances, this change will allow people to take their pension savings earlier than they are currently able to. The government is therefore keen to hear views from respondents about whether the minimum pension age should rise further to allow more time for people to accumulate pension wealth before they reach retirement, for example so that it is five years below the State Pension age instead of ten years.

3.34 The government could also explore other ways to support people in managing their finances in retirement and would welcome views from respondents on possible ways this could be achieved.

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

In addition, the government would welcome views on the following specific questions:

- 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?
- 2 How could the government design the new system such that it enables innovation in the retirement income market?
- 3 Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?

⁷ The transition to this age will need to begin before 2028 and the government will provide further detail on this in its summary of responses to this consultation

⁸ Unless people have built up pension savings in defined benefit schemes with a lower Normal Pension Age

- 4 Should the change in the minimum pension age be applied to all pension schemes which qualify for tax relief?
- 5 Should the minimum pension age be increased further, for example so that it is five years below State Pension age?

4

Supporting choice

4.1 The new tax system for retirement incomes, set out in the previous chapter, will offer more choice and greater flexibility for consumers. A key feature of this system is that it breaks from the traditional notion of a fixed retirement 'point' where most people make a one-off decision on the income they will live with for the rest of their lives. As it becomes the norm for people to spend around a third of their adult life in retirement, and with an ever increasing number of people holding defined contribution pension pots, it is important the system is flexible enough to meet consumer needs across the whole of their retirement.

4.2 The government wants to ensure consumers are empowered and equipped to make the most of their pension savings, and to make decisions that best suit their personal circumstances and risk appetite for the duration of their retirement. The government therefore proposes that everyone has access to free, impartial and high quality guidance so that they can make confident and informed financial decisions and access products that meet their needs.

Choices for consumers at retirement

4.3 There are two broad types of product that are designed to provide an income in retirement: annuities and drawdown products. The new system will offer consumers greater flexibility to choose between these two options, or to mix and match to suit their retirement needs, as well as the option of taking their pension pot as a lump sum.

4.4 For many people, purchasing an annuity will remain the best way to secure an income, at least at some point in retirement. An annuity is an insurance product that is a one-off purchase. Annuities offer a guaranteed income for life, with full insurance against the risk of outliving your savings. But, once bought it cannot be redeemed or surrendered, so a poor choice at the point of retirement means lower income for the rest of your life. And, the trade-off for this guaranteed income is the loss of flexibility to use your pension pot in different ways once the purchase is made.

4.5 The other option for consumers is drawdown products. As outlined in Chapter 3 there are capped drawdown products, linked to the available annuity rates, and flexible drawdown. Flexible drawdown is currently only available for people with very high retirement incomes. The government's reforms will open up these products to a much wider group of people. As the new changes take effect, we would expect to see a much wider range of innovative income drawdown products introduced to the market, allowing consumers to choose the drawdown product that suits them.

4.6 The new system will open up many more options for people. For example:

- those with more than one source of income, such as a defined benefit pension combined with a defined contribution pot, may prefer to keep their defined contribution pension invested and use their defined benefit pension to provide an income
- those wishing to carry on working part-time through the early years of retirement may benefit from using their savings more flexibly, for example by accessing their

tax-free lump sum only, before securing a retirement income through purchasing an annuity when they fully retire

- those in good health who expect to live longer may prefer to purchase a drawdown product for the early years, and an annuity solely to cover their later retirement, at the point at which the longevity insurance it provides is more cost effective
- for some individuals, it may make sense to use some of their pension fund to pay down their mortgage or other debts, or to find other sources of income, for example by investing in a business

Supporting consumers in decision-making

4.7 The government recognises that, in expanding the range of choices available, there is a corresponding need to help consumers navigate those choices, so that they can make good decisions which suit their needs and circumstances. An informed, active customer base is critical to ensuring an effective market.

4.8 Although people may already seek information or advice before purchasing an annuity, the majority of people do not shop around. Those who do try to shop around often fail to find the help they need to secure the best deal for their individual circumstances and may find the options confusing. Consequently, over half of those reaching retirement simply purchase an annuity from their pension provider regardless of whether it is the best rate for them, or whether an annuity is right for them at all.

4.9 The FCA's thematic review (set out in Chapter 2) concluded that the annuities market is not working properly for consumers. It found that consumers miss out on benefits available from shopping around and switching due to their lack of engagement in pensions and annuities. Consumers find the tradeoffs they face confusing and the impact of inertia means that people often fail to make choices which would get them the most value out of their pension savings.

A right to financial guidance at retirement

4.10 The government welcomes the recent statement by the Association of British Insurers (ABI) committing pension providers to provide, at the point of retirement, "a conversation for customers with their pension provider or an impartial advice or guidance service about their retirement options."¹ This is an important step forward in improving the guidance that consumers want and need.

4.11 However, the government wants to ensure that consumers receive good quality guidance that meets their needs and stimulates active and informed choices. It is important that consumers know that the advice they receive is focused on their best interests and not those of the provider. That is why, as part of the new system, and building on the ABI commitment, the government proposes to introduce a new guarantee that all individuals with a defined contribution pension in the UK approaching retirement will be offered guidance at the point of retirement that:

- is impartial and of consistently good quality
- covers the individual's range of options to help them make sound decisions and equip them to take action, whether that is seeking further advice or purchasing a product

¹ Association of British Insurers. At <https://www.abi.org.uk/News/News-releases/2014/03/ABI-sets-out-reforms-to-help-boost-retirement-incomes-for-millions-of-savers>

- is free to the consumer
- is offered face to face

4.12 To deliver this, the government will introduce a new duty that, from April 2015, pension providers and trust-based schemes must offer to each of their defined contribution customers a 'guidance guarantee' at the point of retirement. The government would welcome views on the most appropriate way to implement this duty, and whether differing approaches should be taken for pension providers operating contract-based schemes and trust-based pension schemes.

4.13 In order to ensure that this guidance really is impartial and high quality, providers and trust-based schemes will be required to ensure that the guidance follows a set of robust standards. These standards will be designed to ensure that guidance focuses on helping consumers understand the choices open to them, how to engage with products and providers confidently and knowledgeably, and how to access professional independent financial advice where it is appropriate for them to do so. The government will ask the FCA (working closely with the Pensions Regulator and the Department for Work and Pensions in relation to standards for trust-based pension schemes) to coordinate the development of these standards and the framework for monitoring compliance. In developing these standards the FCA will work in close partnership with consumer groups, the Pensions Advisory Service, and the Money Advice Service. The guidance will be developed using insights from behavioural economics, as well as the expertise of consumer groups and others, to ensure that it promotes better understanding and active choice.

4.14 The government will make a development fund of up to £20 million available to help get this initiative up and running. This fund could be used to support the development of guidance materials, training or to support capacity building in the charitable advice sector.

4.15 The government wants to ensure that consumers can be confident in the impartiality of the guidance they receive, and would like to hear respondents' views on the extent to which this guidance can be delivered by providers themselves without compromising impartiality. On the one hand, robust standards and monitoring should help to mitigate the risks. On the other hand, 'in house' guidance may not be perceived as genuinely impartial, meaning that, to be successful, guidance needs to be provided by a third party that is independent of the provider.

Building on the right to guidance

4.16 The entitlement to high quality, impartial, tailored financial guidance is a critical first step for consumers at the point of retirement. They will be able to talk through the available options and explore which ones might best suit their personal circumstances.

4.17 Many consumers will want to seek further assistance or advice following their guidance session, in particular to help them purchase a product: this may be regulated investment advice (if the individual is considering a drawdown product) or an annuity brokerage service. Some may want to purchase a product without seeking advice (known as 'execution only') and may want to use a comparison site to find the best deal. The government will consider ways to ensure that individuals are equipped with the skills and information to choose the adviser, broker or comparison site that suits their needs and that they understand the nature of the advice or service they will be getting.

4.18 Greater flexibility will mean that more consumers may opt for investment products and therefore will want to access regulated investment advice to help them gauge their risk appetite and consider their wider financial circumstances. The government will work with the FCA to explore the extent to which regulated advice can be made more affordable through more cost effective delivery, such as through the development of online delivery channels. The FCA has

already begun a project that aims to help firms providing advisory services to understand better the boundary between regulated investment advice and non advised services and to look at the issues which may be inhibiting firms providing regulated advice from delivering a streamlined advice service. The project will use the findings of FCA thematic work, consumer research and industry input to identify the issues and provide guidance to support firms in relation to wider investment advice as well as advice in relation to income in retirement.

4.19 Additionally, as more people elect to make use of the new, more flexible options open to them they will need continuing access to support to help them make financial decisions later in their retirement – for example, as the issue of social care becomes increasingly important. The government welcomes views on what may be needed to improve access to the right guidance throughout retirement.

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

More specifically, the government would welcome views on the following questions:

- 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?
- 7 Should there be any difference between the requirements to offer guidance placed on contract-based pension providers and trust-based pension schemes?
- 8 What more can be done to ensure that guidance is available at key decision points during retirement?

5

Defined benefit schemes

5.1 The proposed reforms set out in this document are necessarily focused on those with defined contribution pension savings. This is because those with defined contribution pension savings face a different set of choices to those with defined benefit pension savings. The risks relating to securing an income in retirement for those with defined contribution pension savings sits with the individual, rather than the scheme or employer. However, while the new tax system for defined contribution pension savings will provide greater choice to those with defined contribution pensions, the government recognises that the new system will have implications for people in defined benefit pension schemes.

5.2 These schemes, which typically provide benefits based on a member's length of service and their final or average salary, do not accumulate a pension 'pot'. Instead they build up an entitlement to a set ('defined') level of annual pension based on their membership history. They and their employer may make contributions to the scheme but their entitlement is not directly based upon the value of those contributions. Some employees in both the public and private sectors are in defined benefit pension schemes.

5.3 Currently, members of a defined benefit pension scheme have the right to a Cash Equivalent Transfer Value (CETV). This allows them to transfer to any other pension scheme, subject to certain conditions. If they transfer to a defined contribution scheme (assuming that the defined contribution scheme accepts the transfer), they would typically convert their defined benefit pension rights into a discrete pension 'pot'. This is an option which is not likely to be taken out by many defined benefit pension scheme members (in public service schemes in particular), unless an adviser or product provider can, exceptionally, demonstrate that it is in the individual member's best interests to do so. There are strict regulatory requirements on pension transfers which will continue to be in place under the new system, and defined benefit schemes will continue to offer their members a secure income in retirement. However, the government recognises that the attractiveness of transferring from defined benefit to defined contribution may increase as a result of the changes to the tax framework for how defined contribution pension savings can be accessed.

Public sector schemes

5.4 The majority of public service defined benefit schemes operate on an unfunded basis. This means the contributions of members and employers are used to pay for pensions in payment, with any surplus payments required being met by taxpayers through payments from the Exchequer. As there are no pension 'funds' for these schemes, where a member chooses to take a CETV there is a direct upfront cost to the Exchequer, which must both provide the CETV and cover the cost of any foregone contributions which would have been used to pay for pensions in payment.

5.5 More people transferring their rights from unfunded public service defined benefit schemes to defined contribution schemes, to take advantage of the new tax rules, would therefore expose the Exchequer to significantly higher costs on a current year basis.

5.6 Initial government estimates suggest that the net cost of 1% of public service workers transferring out of public service schemes each year would be £200 million.¹ This burden would be borne by the Exchequer, which would need to fund the additional costs by placing the burden onto taxpayers or onto current scheme members by imposing higher contributions. The government believes that continuing to allow people to transfer from a public service defined benefit scheme to a defined contribution scheme to take advantage of the new system would therefore be unfair on both the taxpayer and remaining scheme members.

5.7 Having considered these issues carefully, the government intends to introduce legislation to remove the option to transfer from a public service defined benefit scheme to a defined contribution scheme, except in very limited circumstances. In the interest of fairness to members and consistency across schemes, the government's preferred approach is to treat all public service schemes equally including those which are funded or have funded elements. However, were there to be a different approach adopted for non-public service schemes (discussed below), the government would consider how best to treat the funded elements of the public service schemes.

5.8 The government does not intend to change the rules affecting transfers from public service defined benefit schemes to other defined benefit schemes (or vice versa). The government has recently announced reforms to the Fair Deal policy which will allow staff previously outsourced from the public services to transfer accrued benefits from private pension schemes back into the public service pension schemes. Furthermore, transfers between defined benefit schemes are necessary for the operation of the Public Sector Transfer Club. The Club allows public servants to transfer their benefits between public service pension schemes, and some other defined benefit schemes, on preferential terms. The aim of these policies is to improve labour mobility between public service employers. The government has committed to retaining this as part of the wider deal on public service pension reform, and this is not affected by the changes to the tax framework proposed in this consultation.

Private sector defined benefit schemes

5.9 Defined benefit pension scheme members, whether in public or private sector, do not face the same set of issues as those with a defined contribution pension entitlement. The pension that members of defined benefit schemes will receive in retirement is not, in general, conditional on short term economic conditions, and the individual members do not need to enter the annuities market to secure their retirement income. In general, it is the employer who bears the risk of market volatility in a defined benefit scheme.

5.10 For most people, retained membership of an existing defined benefit scheme is likely to remain the most appropriate option even after these reforms. Nevertheless, the government believes in maximising freedom of investment options for retirement savings, wherever it is potentially feasible to do so.

5.11 The question is whether it is possible to extend the kind of freedoms discussed earlier in this document to members of private sector defined benefit pension schemes. In principle, the government would like to find a way to do so. However, in practice this decision is finely balanced and the government intends to proceed with caution.

5.12 Specifically, the government is concerned that a large scale transfer (or anticipated transfer) of members of private sector defined benefit schemes to defined contribution schemes could have a detrimental impact on the wider economy. A central theme of this Government's

¹ HMT/HMRC analysis based on average pension wealth of public sector defined benefit members

programme of reform has been to create an environment which stimulates economic growth and investment. Funded defined benefit pension schemes play a particularly important role in funding long-term investment in the UK economy, and UK pension funds are major investors in longer term UK assets. These issues are discussed in more detail in Chapter 6.

5.13 Whilst the government would in principle welcome the opportunity to extend greater choice to members of private sector defined benefit pension schemes, it will not do so at the expense of significant damage to the wider economy – for instance, if doing so were to make it materially harder or more expensive for UK companies to finance long-term investment.

5.14 This is an inherently difficult balance to strike, and the government is therefore consulting on the associated issues and risks. The government is also open to any views from respondents on how best to address the issue of transfers from non-public service defined benefit to defined contribution schemes under the new tax system.

5.15 Specifically, the government is open to options including:

- legislating to remove the right of all members of defined benefit schemes to transfer to a defined contribution scheme, except in exceptional circumstances, as proposed with public service defined benefit schemes. This must be the government's starting point, unless the issues and risks around other options can be shown to be manageable
- continuing to allow members of defined benefit schemes to transfer to defined contribution, as now, but requiring that any funds which have been transferred are ring-fenced by the receiving pension scheme and subject to the existing tax framework for defined contribution. This option preserves but does not extend existing flexibilities within the pension system, and therefore presents no additional economic risks; however it may introduce additional complexity and burdens on scheme sponsors and HMRC, and the government would welcome views on this point
- placing a cap on the amount that people in defined benefit schemes can transfer to defined contribution schemes each year
- continuing to allow transfers, but requiring that any transfer to a defined contribution scheme must be approved by the defined benefit scheme trustees before it can be made
- leaving in place the existing flexibility for members of private sector defined benefit pension schemes to switch to defined contribution schemes, thereby effectively extending to them the full flexibilities described elsewhere in this document. The government is open to this option, given its attractions in principle, but only if it is clear that this would not create significant risks for the UK economy

5.16 The government would also be willing to consider any other options suggested by respondents. However, it will be important to ensure that any solution does not impose undue burdens on pension schemes or HMRC, or add extra complexity to the tax framework.

5.17 The government is also considering how the new flexibilities should apply in the case of hybrid schemes which have both defined contribution and defined benefit elements to them. The government would welcome views from respondents on this issue.

5.18 Members of defined benefit schemes will still be able to benefit from the increased trivial commutation limit which will remain in place once the new tax framework for defined contribution is introduced. This will allow those with total pension wealth of under £30,000 to take their defined benefit pension wealth as a lump sum.

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

In addition, the government would welcome views on the following specific questions:

- 9 Should the government continue to allow private sector defined benefit to defined contribution transfers and if so, in which circumstances?
- 10 How should the government assess the risks associated with allowing members of private sector defined benefit schemes to transfer to defined contribution under the proposed tax system?

6

Financial markets and investment

6.1 The government recognises that the proposals outlined in this consultation may have an impact on investment in the wider economy and is keen to understand those impacts in greater detail. This section of the consultation provides the government's initial assessment of these impacts.

6.2 Pensions and annuities account for a significant proportion of investment in domestic financial markets and by extension the wider economy. In 2011 there were £2 trillion assets in funded pension schemes and annuities, equivalent to 130% of GDP.¹ Approximately two-fifths of these assets were held in the sectors where the government is proposing that additional flexibility should be introduced: defined contribution and associated annuity products. The remaining three-fifths relates to assets in defined benefit schemes.

6.3 The financial markets in which the pension and annuities funds operate are large. The overall size of the Gilts market is £1.4 trillion. As corporates issue in a range of denominations and instruments, the UK corporate bond market is hard to measure precisely, but the total stock of sterling denominated bonds is believed to be around £335 billion.² The annual gross issuance of private non-financial corporate bonds issued by UK resident companies was in the region of £50 billion in 2013.³

Defined contribution investments

6.4 With a defined contribution pension, a fund is built up over a person's working life (accumulation) which under the current system is then converted into a regular income at retirement (decumulation). During both these phases, the money will be invested in assets which generate some form of return.

Accumulation phase

6.5 Individual and workplace pension schemes hold around £0.6 trillion of defined contribution pension assets on behalf of individuals in the accumulation phase.⁴ At present there is limited data on how these assets are invested. Survey data from some of the largest UK employers suggests that a significant majority of funds in workplace defined contribution schemes are currently invested in equities.⁵ However this is expected to change as more recently launched workplace pension schemes acquire a larger market share. For example, the default funds offered by the National Employment Savings Trust (NEST) scheme, which is expected to become the UK's largest defined contribution pension provider, have substantial investment allocations to gilts, corporate bonds and property. In addition, a significant part of current defined contribution pension savings is held within pensions which were not acquired through an employer.

¹ Office for National Statistics. Note this figure excludes Self Invested Personal Pensions, for which there are no official statistics. A Money Management survey found around £100bn of assets in SPPs in 2013

² Bank of America/Merrill Lynch Global Research

³ Bank of England Asset Purchase Facility Quarterly report 2013 Q4, Chart 5

⁴ Office for National Statistics, The Pensions Regulator, Association of British Insurers, The Pensions Institute

⁵ Defined Contribution Default Strategy research, Schroders

6.6 As set out in Chapter 2, the value of defined contribution pension assets is expected to increase significantly in the future, primarily through inflows and fund growth in workplace pensions used for Automatic Enrolment. The Pensions Institute estimates the assets in such schemes will increase around sixfold between 2012 and 2030.⁶

Decumulation phase

6.7 In simple terms, when a person purchases an annuity, the annuity provider takes the individual's pension pot and reinvests it in assets such as corporate and government bonds. Income and principal payments from these assets are used to fund the obligations under the annuity. Chart 6.A shows the split of total assets held by major UK annuity writers as at 31 December 2012.

6.8 Approximately 75% of members of defined contribution schemes opt to purchase an annuity when they retire. The stock of UK annuities is worth around £210 billion,⁷ with an additional £11 billion,⁸ on average, being invested by individuals⁹ every year into UK annuity funds. Most assets purchased to back annuities are fixed interest securities, the majority of which are corporate bonds. The scale of these corporate bond holdings is estimated to be around £100 -150 billion,¹⁰ with 60% of the £11 billion annual flow into annuities being invested in these assets.

⁶ The Pensions Institute, October 2013

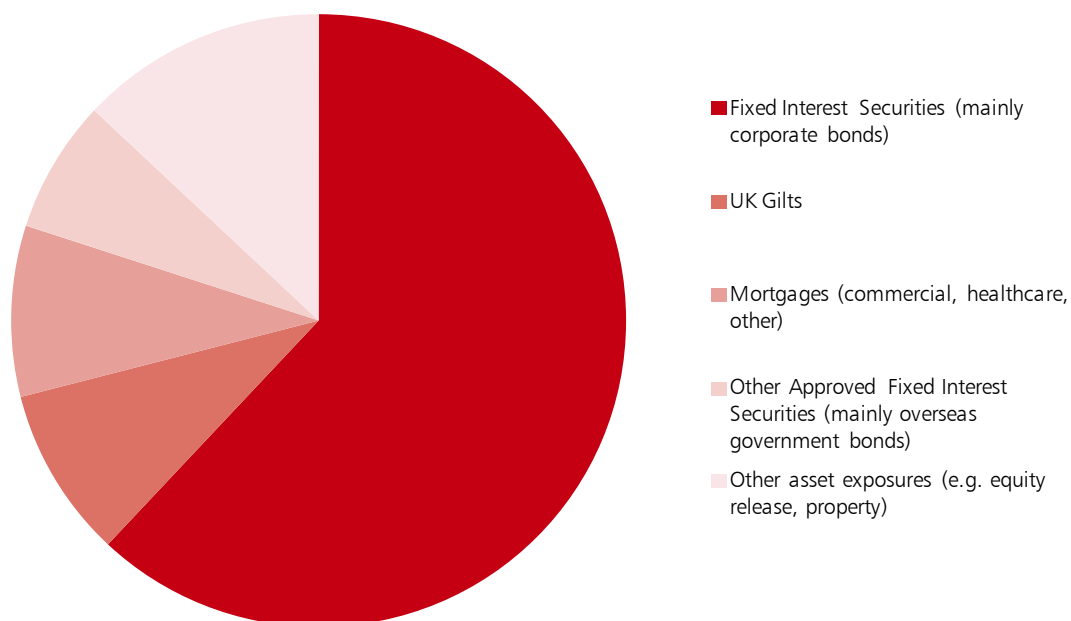
⁷ Financial Services Authority (FSA) returns data as at 31 December 2012. £210bn is the net mathematical reserves held in respect of UK pensions annuities in payment. It includes business written on a single and joint life basis and also includes non-profit, with-profits and index linked annuity contracts

⁸ FSA returns data 2005 – 2012

⁹ Annuity firms writing bulk purchase annuity business will also receive inflows from pension schemes. These bulk purchase liabilities are included in the £210bn net reserves described in Footnote 7

¹⁰ Estimates based on FSA returns data as at 31 December 2012 and PRA data

Chart 6.A: Split of total assets held by major UK annuity writers, December 2012



Source: Prudential Regulation Authority

6.9 The existing stock of annuities will not be impacted by the additional flexibility provided through the tax system from April 2015, as it will not apply to individuals who are already in retirement who have already purchased an annuity.

6.10 The flexibility being proposed would, however, apply to individuals entering retirement who have not yet purchased an annuity. As such, any impacts would only be on new flows into UK annuity funds each year. Currently, this flow is estimated to be around £11 billion per year (on average) and provided firms invest their new business premiums in the same way as the stock, around 60% of flows is estimated to be invested in non-government fixed interest securities (mainly UK and non-UK corporate bonds).¹¹ The main consequence would depend on savers' decisions, but could involve some reduction in the amount of corporate bonds purchased using new annuity premiums each year.

6.11 There may also be an impact on other markets in which annuity funds are invested. As at 31 December 2012, around one fifth of the total annuity fund assets held by major annuity writers were invested in other assets including:¹²

- infrastructure – this investment takes the form of loans to fund public or private infrastructure projects such as energy and transportation assets. The regular cash flow profile and potential long duration of these investments is seen as attractive for backing long-term liabilities such as annuities
- mortgages – some annuity providers hold mortgage assets (usually commercial mortgages). These are considered to be a good match to annuity outflows due to the regular payments made by the borrower over time

¹¹ Based on asset split in Chart 6.A

¹² Prudential Regulation Authority estimate

- equity release – this is a specific subset of the mortgage assets held by annuity writers. Equity release mortgages are different to conventional mortgages in that they are residential mortgages and generally do not lead to regular interest payments being made during the term of the loan, instead relying on maturity proceeds from the sale of the property. They are therefore more likely to be used to fund later duration annuity payments
- property – property investment for annuity writers generally covers direct investment in property via arrangements such as sale and leaseback transactions on commercial properties
- social housing – annuity providers generally invest in social housing via loans to social housing associations. Like infrastructure loans these provide a regular income and can be relatively long-term

Likely impact of increased flexibility on defined contribution

6.12 It is unlikely that the proposals set out in this document would have a significant impact on the composition of defined contribution investments in the accumulation phase. However, the proposals may affect people’s behaviour at the point of retirement. The effects of the new tax system on the way that pension savings are invested after retirement will depend on how individuals choose to withdraw and invest their money.

6.13 The behaviour of members of defined contribution schemes under the new system is hard to predict precisely. At present most people have a significant incentive to draw down some of their pension wealth by taking up to a quarter of their pension as a tax-free lump sum, but the tax system disincentivises them from drawing down further, outside of purchasing an annuity.

6.14 As explored earlier in this consultation, once this disincentive is removed some people may opt to access their pension in a way that does not involve purchasing an annuity. The extent of this behavioural change is difficult to predict. Many people will still value the insurance that an annuity provides against longevity and it is therefore likely that a significant proportion of individuals with a defined contribution pension will continue to purchase an annuity, or a product with very similar characteristics, at some point in their retirement.

6.15 Those who choose not to purchase an annuity – particularly those that have a large pot – may wish to keep their money invested through a drawdown product and access it over time. These products typically provide a range of funds in which consumers can choose to invest. It is therefore possible that the asset mix of drawdown investments will differ to that of annuity providers. Over time this could have an impact on the types of assets held by insurers.

6.16 The government believes that these changes will also provide an opportunity for annuity providers, and providers of other retirement income products, to innovate. Over recent years, providers have called for an increase in the flexibility allowed by the tax rules, particularly to allow them to provide retirement income products linked to social care. These changes will therefore provide much greater scope for providers to meet the needs of customers in retirement, and attract a greater proportion of not only pension savings, but also other forms of savings.

6.17 Additional flexibility may also encourage more people to save in pensions, either through an individual pension, or through a scheme set up by their employer. Flexibility may also cause some people who are aged 55 or more to draw down their defined contribution pension savings earlier than would be the case under the current system. Data from the Pensions Regulator on defined contribution workplace schemes indicates that around a quarter of current workplace

defined contribution pension scheme members are aged 50 or over,¹³ although they may have a somewhat larger share of the scheme assets than suggested by their share in the total defined contribution scheme membership.

6.18 The proposed increase in flexibility through the tax rules would only directly affect the annual flow of new asset investment, as opposed to investments in respect of the existing stock of annuities. As such, the government expects any impacts to be mainly in respect of the estimated £11 billion of new premia that flow into annuities each year. The impact on any individual asset class will depend on:

- the level of change in the annual £11 billion flow, which in turn depends on how many savers continue to buy annuities, or similar products
- the proportion of the annual flow into annuities invested in that asset class (which in the case of non-government fixed income securities typically would be 60%, of which only a proportion consists of UK corporate bonds)
- the proportion of annual flow into non-annuity options

Defined benefit investments

6.19 Private sector defined benefit schemes hold around £1.1 trillion of assets, which they invest with the objective of generating a return to meet their obligation to scheme members. Schemes tend to invest their funds across a range of asset classes with the objective of meeting their future liabilities to scheme members. These investments include equities, government bonds, corporate bonds, property and infrastructure. The proportion of their portfolio held in equities (35%) and government and index linked securities (45%) remains high. While their holdings of corporate bonds are a lower proportion of their portfolio, the absolute level is high, at around £200 billion.

6.20 The investment strategies of defined benefit schemes have been evolving in recent years. Equity allocations have fallen from 61% to 35% of funds' assets between 2006 and 2013. During the same period, funds' holdings of government and index linked securities (typically inflation linked government bonds), and corporate bonds increased from 28% of their overall assets to 45%.

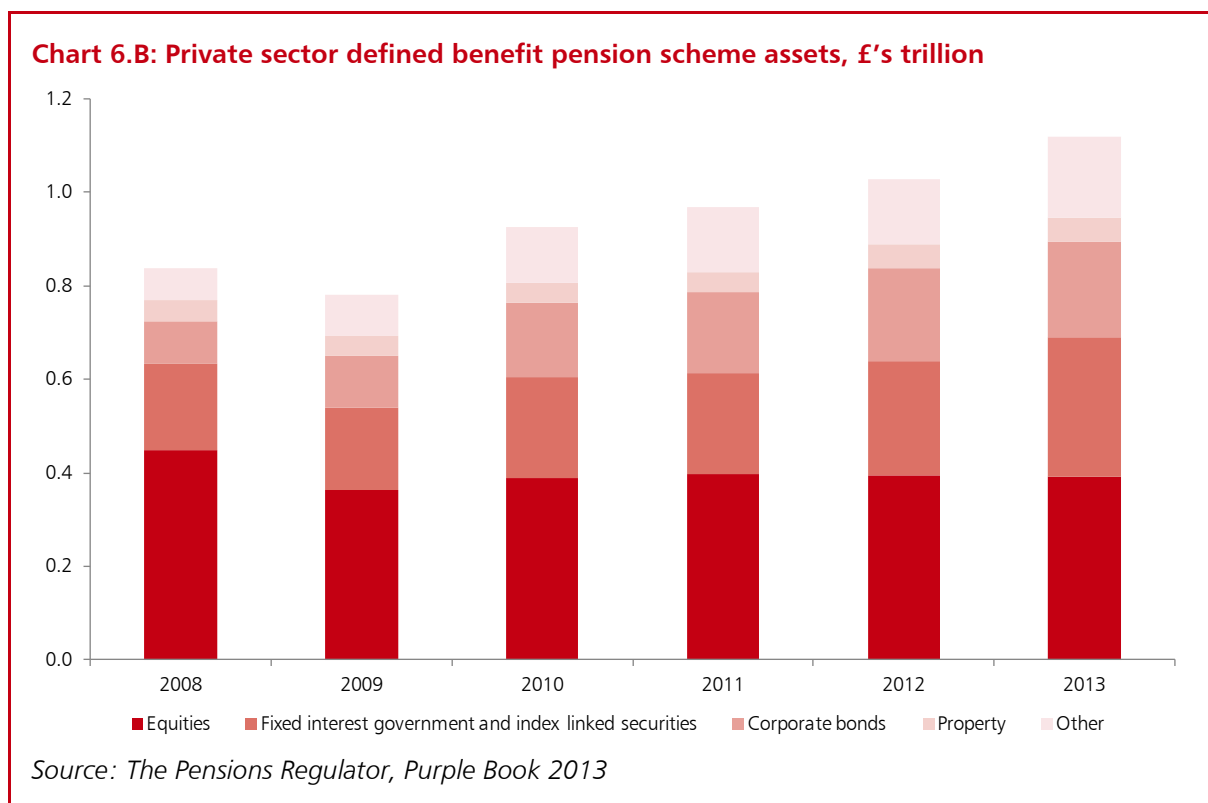
6.21 This shift from equities into fixed income securities has many causes, including the relative underperformance of UK equities in the last 20 years, regulatory changes and an increase in risk aversion on the part of scheme trustees. However, a key driver is the increasing maturity of UK defined benefit schemes in aggregate. As set out in Chapter 2, increases in longevity, and changes to accounting standards have made defined benefit pensions increasingly expensive, leading many employers to close their schemes to new members. The proportion of UK defined benefit pension funds currently open to new members fell from 66% to 27% between 2006 and 2013. This has the inevitable consequence that schemes become more mature, as the average age of members increases over time.

6.22 As defined benefit schemes require a predictable income stream to fund their pensions in payment or entering payment, more mature schemes tend to hold more fixed income assets. Long-dated government bonds and highly-rated corporate bonds are typically favoured by defined benefit pension schemes. Inflation linked bonds are a particularly good match for the index linked liabilities of defined benefit pension schemes. As such, UK defined benefit pension funds play an important role in the market for inflation linked UK government debt.

¹³ Defined Contribution Trust Scheme Data Return Analysis 2013-14

6.23 Average asset allocation data suggests that defined benefit schemes hold around £90 billion of conventional gilts and as much as £200 billion of index linked gilts, much of them likely to have longer maturities.¹⁴ These holdings are particularly significant for index linked gilts, potentially accounting for over half of the total market.

6.24 Defined benefit schemes' holdings of corporate bonds are also significant; it is estimated that schemes currently hold around £200 billion of corporate bonds¹⁵, the majority issued by domestic corporations, but also some foreign corporate bonds in sterling and other denominations.¹⁶ The outstanding value of the UK Sterling corporate bond market is estimated to be around £335 billion.¹⁷



6.25 Public service funded defined benefit schemes manage assets on a smaller, but still significant scale. At the end of 2012-13, the major funded public sector scheme, the Local Government Pension Scheme (LGPS), held assets of around £210 billion. The LGPS has tended to maintain larger equity holdings than private sector defined benefit schemes, in part because the LGPS remains open to new members and is a less mature scheme than its typical private sector equivalents.

6.26 As part of the government's consideration of how to treat private sector defined benefit schemes, the government will want to understand whether the impact on the wider economy would be significant if members of defined benefit schemes were to continue to be permitted to transfer to defined contribution schemes.

6.27 Whereas decisions by defined contribution members not to buy annuities would impact on the *flow* of investment into assets backing annuities, behavioural change by defined benefit

¹⁴ The Pensions Regulator, Purple book 2013. Figure is for PPF eligible schemes, which excludes the larger public sector DB schemes

¹⁵ The Pensions Regulator, Purple book 2013. Figure is for PPF eligible schemes, which excludes the larger public sector DB schemes

¹⁶ Mercer, European Asset Allocation Survey 2013

¹⁷ Bank of America/Merrill Lynch Global Research

members switching out of their scheme would impact on the overall *stock* of investments held by defined benefit schemes.

6.28 If members of defined benefit schemes were to continue to be permitted to transfer to defined contribution schemes, then the stock of assets currently held by defined benefit schemes could potentially be affected. For example, if a significant number of members were to transfer out of these schemes then the profile of scheme liabilities would shorten and the requirement for index linked hedging may be reduced. That might affect the demand for long dated and index linked government and corporate debt in particular. The cash requirements of schemes would also change, which may alter their investment strategies.

6.29 Given that the stock of defined benefit liabilities and assets exceeds £1.1 trillion, even relatively small changes to this stock could have a significant impact on financial markets. In turn this could impact on the wider economy, particularly through the gilts, corporate credit and equities markets. By comparison, a reduction in annuity purchases would only affect the way in which around £11 billion of new funds are invested each year.

6.30 As with any shifts in asset allocation as a result of the annuity purchase changes described earlier in this chapter, funds transferred out of defined benefit schemes by individuals would likely be invested in alternative products. However, the asset mix of those investments would likely differ from the strategies currently pursued by defined benefit schemes.

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

7

How to respond to this consultation

7.1 This paper is available at www.gov.uk/government/publications.

7.2 The government welcomes responses to the questions raised in this consultation; these are summarised in Annex A. Respondents are encouraged in their responses to add any additional information they feel is relevant to this consultation.

7.3 Responses to this consultation should be received by Wednesday 11 June 2014. Please ensure that responses are sent in before the closing date. The government cannot guarantee that responses received after this date will be considered. The government will also engage with relevant stakeholders ahead of this date. The government aims to respond to this consultation before the summer recess of Parliament.

7.4 Responses to this consultation should be sent to:

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

Alternatively, please send responses by e-mail to Pensions.Consultation2014@hmtreasury.gsi.gov.uk.

7.5 When responding, please state whether you are doing so as an individual or on behalf of an organisation.

Consultation process

7.6 This consultation is being run in accordance with the Code of Practice on Consultation, and will be run for the full 12 week period.

Confidentiality

7.7 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

7.8 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, among other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

7.9 HM Treasury will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

A

Summary of questions

A new tax framework for retirement (Chapter 3)

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

- 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?
- 2 How could the government design the new system such that it enables innovation in the retirement income market?
- 3 Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?
- 4 Should the change in the minimum pension age be applied to all pension schemes which qualify for tax relief?
- 5 Should the minimum pension age be increased further, for example so that it is five years below State Pension age?

Supporting choice (Chapter 4)

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

- 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?
- 7 Should there be any difference between the requirements to offer guidance placed on contract-based pension providers and trust-based pension schemes?
- 8 What more can be done to ensure that guidance is available at key decision points during retirement?

Defined benefit schemes (Chapter 5)

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.

- 9 Should the government continue to allow private sector defined benefit to defined contribution transfers and if so, in which circumstances?
- 10 How should the government assess the risks associated with allowing private sector defined benefit schemes to transfer to defined contribution under the proposed tax system?

Financial markets and investment (Chapter 6)

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

HM Treasury contacts

This document can be downloaded from
www.gov.uk

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