UKSIF
UK Sustainable Investment
and Finance Association

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

11th June 2014

Dear Chancellor,

Response from the UK Sustainable Investment and Finance Association (UKSIF) to HM Treasury's consultation on "Freedom and choice in pensions"

Thank you for the opportunity to respond to this consultation paper.

UKSIF welcomes the decision in principle to give greater choice to retirees over how they access their pensions savings. It is well-established that the current UK pensions system is in need of reform and we are hopeful that the thrust of the measures the Government is seeking to introduce will help bring about some of the necessary changes, including the encouragement of a longer-term approach to savings. We also agree that there are problems with the annuities market and are pleased that there will be a follow-on FCA Competition Market Study.

However, we are concerned that the government's current proposals:

- Include a very short timescale and insufficiently detailed proposals so far for what is a fundamental shake-up of the pensions market. The advice industry in particular is still adjusting to a post-Retail Distribution Review world and there may be capacity problems which would be exacerbated by such a rapid rate of change.
- Are, when assessed together with other changes to the pensions market such as auto-enrolment and the Collective Defined Contribution (CDC) schemes proposed in the latest Queen's Speech, contradictory. For instance, it could be argued that while HM Treasury's current proposals aim at the 'individualisation' of pension provision, other changes are aimed more at a 'collectivisation' of pensions, with the latter implying that people cannot be trusted to make long-term savings decisions and must be 'nudged' into appropriate pension provision.

We would also emphasise the necessity of ensuring the provision of fully impartial, high-quality guidance which takes into account the full range of a client's interests and requirements, including those related to environmental, social, governance and ethical issues. Given clear public demand for access to these kinds of long-term investment and savings products, we hope that the technical guidance issued by the Financial Conduct Authority (FCA), The Pensions Advisory Service (TPAS), The Money Advice Service (MAS) and others will acknowledge and encourage this.

Our response draws upon detailed member feedback including views shared at a roundtable discussion event held on the 4th June – attended by asset managers, financial advisers and others active in pension provision – as well as some of our previous submissions to consultations including our response to the Financial Services Authority (FSA)'s consultation CP12/19 *"Restrictions on the retail distribution of unregulated collective investment schemes and close substitutes"* in November 2012.

About UKSIF

The UK Sustainable Investment and Finance Association (UKSIF) supports the UK finance sector as a global leader in advancing sustainable development through financial services. We promote and support responsible investment and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments.

We have approximately 250 members including pension funds, asset managers, financial advisers, investment banks and NGOs.

Question 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?

Yes; we believe that increased choice for individuals over how they access their pension savings is a significant and positive step towards reforming the current system. We therefore think that as few barriers as possible should be placed on individuals seeking to benefit from increased flexibility.

Question 2: How could the government design the new system such that it enables innovation in the retirement income market?

UKSIF welcomes the moves taken by the government to reform the pensions market and give more choice to consumers over their savings and pensions. We believe that the concerns about the competitiveness of the annuities market are well-established and hopeful that HM Treasury's proposals will stimulate greater product innovation. We also think that allowing individuals greater flexibility over their pensions should stimulate the kind of longer-term thinking that was highlighted as a cornerstone of sustainable financial markets in recent government-commissioned papers like the *Kay Review of Equity Markets and Long-Term Decision-Making*.

Our members tell us that it is important for the government to work closely with product providers and other relevant stakeholders when creating the right kind of tax framework. We are hopeful that increased competition for retirement products will result in a wider suite of options being made available to consumers. However, we would also highlight the need for consumers to have access to products which take into account their concerns about environmental, social, governance, ethical and local issues.

Partly, this will depend on what kind of advice is made available (please see our answer to Questions 6 and 8 for a more detailed response on this issue). It is reasonable to suppose that, as many of our members tell us, the asset management industry – where SRI (sustainable and responsible investment) investment approaches are becoming increasingly 'mainstream' will ensure this happens anyway. However, we believe the government should take these issues into account when designing the tax framework.

Please see our responses to Questions 6 and 8 for statistics on the demand of UK consumers for sustainable and ethical investment products.

We are also concerned that the deadlines HM Treasury has set for designing the tax system – as well the 'guidance guarantee' implementation – are very short, particularly considering the plethora of other changes affecting the pensions, investment and advice industries (including the Collective Defined Contribution proposals outlined in the Queen's Speech on the 4th June, auto-enrolment, the ongoing Local Government Pension Scheme consultation on proposals for collaboration and cost savings). It is important that enough time is allocated to the shaping and implementation of the far-reaching changes currently envisaged by the government in this area.

Question 3: Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?

Yes, we believe that consistency and stability is important in ensuring people can properly plan for their retirement.

Question 4: Should the change in the minimum pension age be applied to all pension schemes which qualify for tax relief?

Yes.

Question 5: Should the minimum pension age be increased further, for example so that it is five years below State Pension Age?

We do not feel that we have sufficient expertise to answer this question.

Question 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?

Discussions with some UKSIF members have made clear the concerns over in the ability of pension providers – also UKSIF members – to deliver fully impartial and good-quality advice. Evidence was cited regarding the current problems in the annuities market – which is also partly due to deep-seated consumer inertia and some of the other problems HM Treasury's consultation highlighted – including, for instance, the lack of visibility of the 'open market option' in the vesting papers that are given to a client when it is time to take their pension.

However, most of our members do not think that this should automatically mean that pension providers be *required* to outsource delivery of guidance. This is partly because of concerns about the ability and visibility of The Money Advice Service (MAS) and The Pensions Advisory Service (TPAS) to do so instead, given recent challenges – particularly in the relatively short period of time that the Treasury has set aside for implementation of their 'guidance guarantee'. Instead, the view was expressed that properly designed and *enforced* regulation may be sufficient to guarantee individuals impartial advice.

We are also concerned that there is currently a lack of capacity in the adviser market in a post-Retail Distribution Review (RDR) environment, both in terms of the number of advisers as well as the depth of advice capability. We hear from our adviser members that they are still 'getting to grips' with the changes – particularly those in smaller firms – and although HM Treasury's reforms are potentially a good opportunity, it may be difficult for the financial advice market to provide consistently good value and high-quality advice.

One way to alleviate this capacity problem would be to remove the proposed requirement for 'face-to-face' guidance. While we understand that some individuals will feel more comfortable thinking and discussing long-term investment decisions in such an environment, this is not the case for all consumers; for reasons of convenience etc. some individuals may prefer to take guidance over the phone or even online and we are aware that there are some advisers who are shifting quite heavily into advice and guidance provision by such methods. We note and welcome the comments made by Martin Wheatley in response to a Treasury Select Committee[1] hearing in February that it is possible for advised products to be purchased online without any human intervention though it is important that such activity is regulated so as to avoid misselling.

Ensuring consumers can invest in line with their values

The progress of auto-enrolment and HM Treasury's proposals should encourage greater numbers of consumers to engage on their retirement investment options. It is therefore important that HM Treasury work with the Financial Conduct Authority (FCA), the Financial Ombudsman Service (FOS), MAS and TPAS in order to ensure the kind of guidance provision that enables consumers to use financial products in ways which support their overall well-being, including their ability to reflect their values and social priorities in investments. This is important to support equality and diversity as well as general consumer well-being.

Research undertaken by YouGov for UKSIF[2] as part of National Ethical Investment Week 2013 also found that a far wider range of clients are interested in such issues than is sometimes assumed. For instance:

- 63% of British investors would like to be offered a sustainable and ethical option when choosing investments
- In particular, 66% of investors would like to be offered the option to choose a sustainable and ethical pension product.

There is also widespread concern among consumers that poor corporate governance and companies pursuing unsustainable or unethical business practices could put investors' money at risk:

- 67% of respondents would be concerned about losing money if it was invested in companies pursuing activities that could be unsustainable in the long-term, for example in oil and gas

[1] www.professionaladviser.com/ifaonline/news/2326813/mps-grill-wheatley-over-web-based-advice-consultation-due-next-quarter - Accessed 10/06/04
[2] http://neiw.org/wp-content/uploads/2014/02/UKSIF-NEIW-press-release-FINAL-VERSION1.pdf - Accessed 10/06/14

- 43% would be likely to move their money out of a company that engaged in unethical or unsustainable activities.

It is therefore vital that guidance must be shaped so as to allow people to choose pension products in accordance with their values.

Both UKSIF and its members have engaged with the FCA and its predecessor body, the FSA, on how best to approach the issues of guidance on ESG issues. Although the FCA currently 'allows' the consideration of ethical and sustainable products, our members tell us that in reality financial advisers often feel unable or constrained in their ability to 'recognise' that clients have considerations other than financial return. Possible remedies could include:

- The provision of a sustainable 'default' pension fund option under auto-enrolment
- HM Treasury, FCA, MAS, TPAS and others to work with the sustainable advice industry when issuing guidelines with the explicit aim of encouraging advisers to examine SRI products with their clients
- Relevant government bodies and regulators to work with the industry on training for financial advisers in SRI products.

Question 7: Should there be any difference between the requirements to offer guidance placed on contract-based pension providers and trust-based pension schemes?

No. It is important that potential beneficiaries of both contract-based and trust-based schemes have full access to completely impartial advice. We would also like to highlight the need for TPR, the FCA and other relevant bodies and regulators to work together to provide a coherent and stable regulatory framework that stimulates product innovation.

Question 8: What more can be done to ensure that guidance is available at key decision points during retirement?

Our members have highlighted to us the need for consumers to be given as much time as possible to prepare for greater control over their savings; this will also be important to minimise the burden on HM Treasury and the taxpayer should people fail to save a sufficient amount for their retirement.

One idea that was suggested by one of our roundtable attendees was that of a 'trigger' letter sent to people on or around their 40th birthday. This may seem quite early but as HM Treasury point out in the consultation paper itself, people are reluctant to save for retirement and often save too little, too late – the earlier they receive a 'reminder' which is then followed by action, the better.

Members also discussed the possibility that HMRC work closely with TPAS, pension providers and other relevant organisations in providing the data that would enable comprehensive coverage and implantation of such a 'trigger' letter.

UKSIF also believes that taking a truly long-term approach to the take-up of guidance at retirement places greater importance on the provision of good-quality financial education while future consumers are still in the education system. Although there have been some encouraging 'first steps', much higher priority must be given to encouraging financial literacy and long-term thinking both within educational curriculums and among the general public. We would direct HM Treasury to the excellent work carried out by pfeg (Personal Finance Education Group) and others in working towards ensuring wider and deeper financial education takes place in schools.

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

We do not feel that we have sufficient expertise to answer this question.

Question 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?

We do not feel that we have sufficient expertise to answer this question.

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

UKSIF's investor members – both retail and institutional – direct, manage and hold interests in funds in a wide variety of sectors and across every asset class, including infrastructure.

There was a broad range of views on the precise shape of any potential changes to investment approaches and patterns resulting from HM Treasury's plans as they currently stand. Partly, the changes will be dependent on the nature and shape of advice, which is why it is so important to get the 'guidance guarantee' right.

Members were generally in agreement that the proposed changes would "focus people's minds" on investing for the long-term, which could have a knock-on impact on the demand for pension products which take mega-trends such as climate change, resource depletion and demographic changes into account in their investment approaches. It is reasonable to suggest that this might also stimulate demand for *retail* investment in infrastructure funds, which tend to be held for the long-term.
However, our members were also keen to point out that the inherently illiquid nature of infrastructure funds as they are currently structured at present might deter retail investors, who might need to redeem their investments at short notice. As a result, some of our financial adviser members stated that they would be reluctant to recommend such products and funds to their members.

It is clear to UKSIF's institutional members, from the government's policy decisions and statements over the last four years, that HM Treasury and other government departments are keen to direct private investment towards infrastructure. We have already heard from some of the larger players in the annuities market that they are unwilling to continue to back some of the government's larger infrastructure products until they have seen how HM Treasury's proposals play out. It is also the case that some of our asset manager members have highlighted that many of the infrastructure projects to which HM Treasury is currently keen to stimulate private investment are not yet at the stage where they would be willing to take on the risk (e.g. they are still at the highly-risky construction stage). One possible solution would be for the government to take on a larger share of the construction risk.

This is, of course, a broader issue and one that is outside the scope of HM Treasury's consultation, but we think it is important to note that you cannot look at the potential impact of these proposals on infrastructure investment without taking into account the wider context.

Similarly, any impact on investment from HM Treasury's proposals on greater flexibility in pensions must be viewed as a piece with the other changes to the pensions and investment markets that are currently underway. We are seeing a period of unprecedented legislative change over a very short – and, we believe, potentially *too* short – period of time and we hope that HM Treasury will work with other departments including the Department for Work and Pensions (DWP) and the Department for Communities and Local Government (DCLG) to model and understand the interactions – and the consequences for investment behaviour – between the different initiatives before finalising any relevant reforms.

We also think that opening up the retirement product market may provide an opportunity for innovative crowd-funding and P2P investment approaches and products and we may see a corresponding growth in the market; our members tell us that some 60-65 year olds are already investing significant amounts of saving this way. We welcome the recent decision by the FCA to introduce regulation into this space although we are aware that some of the finer details remain yet to be worked out.

I trust that the comments above are self-explanatory. If you would like any further information, please do not hesitate to contact me.

Yours sincerely,

Simon Howard
Chief Executive
UK Sustainable Investment and Finance Association (UKSIF)