Financial Conduct Authority continues work on protecting pensions

General Features **Personal tax**

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LITRG comments on the FCA’s latest Retirement Outcomes Review consultation.

Pensions freedom has given pension savers choice over what they do with their retirement savings. The Financial Conduct Authority has been addressing some of the difficulties that freedom has created for pension savers – that is, the difficulty of making people fully aware of their options and the impact of the choices they make; or indeed that failure to make a choice can leave them worse off (for example because their fund is invested in cash by default).

As summarised in October’s Technical Newsdesk, the Low Incomes Tax Reform Group has previously commented on the FCA’s consultations in this area. LITRG’s latest response to the FCA’s most recent paper, CP 19/05, highlights two key issues relating to the tax consequences of pension decisions.

First, in LITRG’s experience, it is essential for people to be provided with clear guidance, in a consistent format and at the right time. It is therefore welcome that the FCA intends to mandate both the use of standard wording and the timing of information being provided.

LITRG’s second point relates to getting tax guidance to consumers. The consultation paper proposes that pension providers should have to offer non-advised savers certain investment ‘pathways’ so that their investments meet their objectives. The individual would have to choose one of the following options:

- Option 1: I have no plans to touch my money in the next 5 years
- Option 2: I plan to use my money to set up a guaranteed income (annuity) within the next 5 years
- Option 3: I plan to start taking my money as a long?term income within the next 5 years
- Option 4: I plan to take out all my money within the next 5 years

The individual’s pensions investments would then be tailored to suit the selected objective.

LITRG’s response suggests that in terms of offering tax and state benefits guidance, knowing which of the above boxes a person has ticked is a good opportunity to give them some broad guidance about what they might need to think about as a result.

Our experience is that people are far more likely to engage with information that is relevant to their situation. Some standard guidance could therefore be sent to consumers at the point they choose one of the above, based around their choice.

For example, if someone selects option 4, it would be worth pointing out to them that, depending on their other income, taking their whole pension savings out within five years could be inefficient in tax terms. Similarly, their choice might have an impact on state benefits entitlement.

The point of this would not be to give people advice or even to cover all possibilities, but to get people to think about the tax and state benefits consequences of their pension choices. Even if it only serves to plant the seed in their mind that there are potential consequences, so that next time they come to make a pension choice they might think about tax and state benefits, it would be worth doing.