Written evidence from Name Withheld (PFC0043)

1. Introduction:

My wife and I are effectively retired though she works part time for our Property Management company. Both of us are aged 62 so not eligible for the State Pension for another four years. Both of us have had Defined Benefit (DB) pensions from past employment which, though welcome, do not allow us the amount of freedom with the proceeds that other retirement vehicles offer. As a result, we have recently been going through the simply tortuous process of porting these pensions to more suitable retirement vehicles:

- In my case, into my own self-managed SIPP; and
- In my wife's case, into a much better Annuity product.

In both our cases, we have been required by the Pension Services Act 2015, to seek independent financial advice. However, we believe that some IFAs are charging far too much money for this work, and in addition, the amount of work done, can vary greatly depending on which IFA a client chooses.

2. Concern No. 1: Vastly varying quotes from prospective Financial Advisers.

Whilst trying to obtain quotes from prospective Financial Advisers, the quotes have varied hugely, from 1-3% of the CETV (the Transfer value) quoted by our DB provider. Advisers state that there are various reasons for this, namely:

- There is a lot of work involved;
- They have to purchase expensive Professional Indemnity insurance; and
- In one case (cheekily) an IFA said that he was 'in it to make money, frankly'.

From our researches, it appears that the work involves:

- Receiving and assessing the client's Pension Benefits Statement and Transfer Value quote.
- Obtaining and assessing the information from a Client Questionnaire - normally completed by the clients themselves.
- The production of a computerised Transfer Value Analysis System (TVAS) report – but NOT if the pension benefits are to be taken immediately after the transfer has taken place.
- The production of a personalised client report, assessing the value of the existing pension against the likely benefits (or otherwise) of transferring it.
- The administration of the pension transfer itself (unless clients do this themselves as we did).

Whilst the client report will undoubtedly take the most amount of time, we believe it will follow much the same structure for many different clients in similar circumstances.

Therefore, for an experienced Financial Adviser, we believe that all the work outlined above, SAVE FOR the processing of the pension transfer, should not take more than one working day albeit elapsed over 2-3 weeks. At even £150 per hour, this should not amount to more than around £1,000 worth of work. In fact we believe that this should cost even less as Financial Advisers are not nearly as highly qualified as Accountants or Solicitors.

Moreover, whilst the risk of providing the advice might be greater for those with large CETVs, the amount of work involved is much the same. Therefore a percentage approach to charging is unfair.

Indeed, were it not for the fact that many IFAs were undoubted charlatans in the 1980s and 1990s and in some instances, even now (see Concern No. 2) they would not NEED to be so heavily regulated now, and would therefore not need such expensive Professional Indemnity insurance.

Indeed it is as though WE, the clients, are having to pay the costs for their past misdeeds, in the form of higher fees at present.

In my case and with a relatively large CETV I was quoted between £1,750 and £6,000 for this work. Moreover, the approach from different financial advisers varied widely, with some taking far more care over the process than others (see Concern No. 3).

In my wife's case and with a CETV 60% the value of mine, she was quoted up to £5,000 for her advice, DESPITE THE FACT that she wishes to take an Annuity from her DB proceeds and realises that she can purchase a far better annuity than her Company will provide for her (see Concern No. 4).

We therefore recommend the following:

- **CAP** the amount that Financial Advisers can charge for producing pensions transfer advice.
- **INSIST** that Financial Advisers reduce their costs for clients who manage their own pension transfers (after all it's only form filling and administration)
- **STANDARDISE** the process for advising on pension transfers so that all financial advisers gather the same amount of client information and do the same amount of work.

3. Concern No. 2: In addition to charging unfairly for providing financial advice for Defined Benefit transfers, advisers are ALSO charging a percentage commission, for transferring the pension.

My wife's experience whilst attempting to transfer her pension is a not untypical example of how advisers accrue a 'double bubble' in fees, whilst arranging pension transfers.

She has sought the financial advice from LV= (Liverpool Victoria) and has been charged £750 plus VAT of £150. LV= operate differently from other firms we have approached, in that they treat the provision of advice separately from the mechanics of the pension transfer, even though to all intents and purposes, this is part and parcel of the same operation. Therefore, we believe charging VAT in this instance contravenes Chapter 9 of VAT Notice 701/49 and we will be challenging LV= in this respect, including taking them to the Financial Ombudsman if necessary.

But that's not the end of it. IN ADDITION to charging for their advice, LV= proposes to charge 3% of the pension fund if they transfer it. Indeed they even show a worked example at the end of their Client Questionnaire (see sample questionnaire 2, in Appendix 1). So … if they advise and then arrange the transfer of a £100,000 pension fund, their charges will total as much as £3,900. Nice work if you can get it (!).

We therefore recommend the following:

- **CAP** the amount that Financial Advisers can charge for producing pensions transfer advice (as recommended already); and
- Prohibit firms from charging VAT on pension transfer advice in any instance.

4. Concern No. 3: Financial Advisers appear to consider vastly differing amounts of client information when advising on pension transfers.

In Appendix 1 you will see three sample Client Questionnaires to show the varying amount of detail requested by IFAs we have approached before they advise on pension transfers. You will see that:

- Questionnaire 1 is completely haphazard and appears to have been done 'on the fly'. But this IFA quoted the most when we enquired about DB pension transfer advice costs.
- Questionnaire 2 is better, but leaves some detail missing and crucially, fails to enquire WHAT the client hopes to achieve, by transferring their DB pension.
- Questionnaire 3 we found the best, and indeed I used this IFA (as he quoted the least) when seeking transfer advice for my DB pension. And in actual fact, he did a very good job indeed.

We therefore recommend the following:

- That the FCA develops and promulgates a standard Client Questionnaire which ALL IFAs should be required to use, when obtaining the necessary client information.

  After all, the Law Society has already done this to assist Solicitors provide effective conveyancing, Form TA1 being a prime example.

5. Concern No. 4: When seeking to purchase a better Annuity using the CETV from a Defined Benefit pension, individuals have to go through an even MORE CONVOLUTED process, than those wanting to transfer to a risk-related vehicle, such as a SIPP.

One of the restrictions of current legislation is that individuals wishing to use the proceeds of their DB pension to purchase a better value Annuity, are simply NOT allowed to do so. We find this ridiculous as those porting their DB pension in this way, are transferring from one secure solution to ANOTHER secure solution.

Additionally, for those in questionable health, approaching retirement and NOT wanting to transfer their DB to a risk-related alternative, an impaired life Annuity may well prove to be a suitable solution. Yet this is not permitted under current legislation, for reasons we have yet to discover.

My wife's DB pension benefits are relatively poor compared to her CETV. Moreover the Annuity it provides is also poor compared to those offered via the Open Market Option, though it does provide for a Spouse's pension.

In our case however, given that I am likely to be the first to die, my wife's Spouse's pension becomes irrelevant. As a result therefore, we are both looking for an Annuity purely for herself as she wants a secure income for life. However, in order to do this she will have to:

- Obtain the statutory financial advice,
- Transfer the proceeds of her DB into a Defined Contribution pension (DC) she also holds, and
- Finally, purchase her Annuity with the proceeds of both pensions.

This is HIDEOUSLY complicated and completely illogical, given the freedoms now on offer as a result of the Pension Services Act. Indeed we believe that in total, this could well take best part of a year to complete these processes.

We therefore recommend the following:

- That individuals SHOULD be allowed to purchase Annuities directly from the proceeds of their DB pensions.
- That whilst they should be required to take financial advice, it should ONLY take the form of an analysis of the following:
  - a financial comparison of all the DB benefits –v- the proposed Open Market Option alternative, plus
  - a health questionnaire for both client and spouse.

  Anything else is irrelevant as individuals are substituting a secure income for life, for a secure income for life.
- Moreover, the cost of this advice should be met by the Annuity provider, not the purchaser.

6. Concern No. 5: The transfer-out and transfer-in teams of, respectively, ceding schemes and receiving schemes are inadequately knowledgeable and experienced. Moreover the whole process takes far too long.

In our attempts to transfer our DB pensions we have found that there is no standard process in force, nor a standard set of forms that is used by the whole industry. Moreover, the whole process inevitably takes many months, due to the varying competence of the staff involved, within both ceding schemes and receiving schemes.

Yet if we wanted to move either our current bank account or our energy supply to a new provider we could do this both quickly and easily. That's because the Government has put in place reforms to ensure that these processes take place both easily and quickly.

Take one example of the current confusion: Both the ceding pension scheme and the receiving pension scheme need evidence that we have taken financial advice. Fair enough. But they both insist on having THEIR OWN Financial Adviser Declaration form filled in, taking unnecessary time and effort for both the individual and the financial adviser concerned.

Why not have ONE Financial Adviser Declaration form that all firms accept, like the Property Information Form (TA1) previously mentioned, that is accepted by all conveyancing solicitors nowadays.

Another example is Identity Verification. When my wife wants to transfer her DB her former Company is insisting on the following ORIGINAL certificates, by way of identity verification.

- Her Birth Certificate
- Her First Marriage Certificate
- Her Decree Nisi Certificate; and
- Her Second Marriage Certificate.

This is completely bonkers, not the least because she worked for her former Company for no fewer than 11 years (so they should have known who she was by then) and additionally, was known by her current surname when she left.

We therefore recommend the following:

- Both ceding pension schemes and receiving pension schemes should be required to adopt the same forms for the transmission of information from one provider to another. Indeed, the Financial Conduct Authority or the Pensions Regulator should develop and promulgate standard forms as a matter of urgency.

- Identity verification should be made far simpler whereby; say, a Passport copy and a recent utility bill should suffice.

- Transfer-out and transfer-in staff in, respectively, ceding and receiving pension schemes should be required to hold an appropriate, relevant qualification, e.g. A Certificate in Pension Transfers, so that they all have the relevant expertise and competence, with which to do their job properly.

- Finally, the process should be time limited like current account bank transfers, and compensation available to individuals who suffer unnecessary time delays.

7. Concern No. 6: Individuals with poor annuities cannot yet switch them.

Ever since the 1980s, Britain's Governments have largely sought to champion consumer choice. As a result, nowadays individuals can choose between a huge variety of alternatives in an ever increasing amount of product and service areas, such as:

- Air travel
- Banking services
- Credit cards
- Broadband
- Education
- Energy provision
- Healthcare
- Insurances
- Loans
- Mobile telephone services
- Mortgages
- Pension types
- Rail travel
- Savings
- Shopping
- Television channels

Annuities however, are a glaring exception. Annuity purchase is for life, no matter what the circumstances. Yet there is absolutely NO technical reason why this should be the case.

Steve Webb, Pensions Minister in the Coalition Government of 2010-2015 and the architect of the Pension Services Act, never thought so. He wanted to introduce the means whereby pensioners could switch to better annuities regularly in the same way that home owners can change their mortgage deals every few years. That's because:

- Interest rates WILL change over the lifetime of an Annuity, and therefore individuals could get far better value a few years further down the line; and
- Individuals' health could well change over the lifetime of an Annuity, and as a result, individuals would benefit from switching to an Impaired Life Annuity, e.g. to help pay for nursing care home fees.

He also wanted to end the 'rip-off' hidden charges levied by Annuity providers. An article on how he planned to do all this, is shown in Appendix B. Sadly, his plans never came to fruition, but we think legislation should be enacted to enable people to switch annuities easily.

We therefore recommend the following:

- That individuals SHOULD be allowed to switch Annuities in the same way that they can change the provider of many other products and services, such as energy or mortgages.
- That charges relating to the provision of Annuities should be capped and restricted, thereby ending the 'rip-off' hidden charges that reduce the value of Annuities.

8. Conclusion:

There's no doubt that there's a lot that's very good about the Pension Services Act 2015 and it's great that the State is finally now treating pension savers like adults. However, a number of areas need urgent attention, such as:

- The amounts that IFAs are receiving for providing the statutory financial advice relating to DB pension transfers;
- The high levels of commission they ALSO sometimes receive when they arrange them.
- The different amounts of work that IFAs do, when advising on DB pension transfers.
- The fact that it is NOT possible to purchase an Annuity directly from the proceeds of a DB pension;
- The poor knowledge (often) within the Transfer-out and Transfer-in teams within, respectively, ceding pension schemes and receiving pension schemes. Also, the varying levels of identity verification required; AND
- The fact that those who have purchased Annuities which subsequently become poor value, cannot switch them.

We therefore look forward to this Select Committee making clearly needed recommendations to improve the working of this Act, in these areas.

October 2017