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Retirement policy reform

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Each month we ask leading industry figures to answer one big question... As we come to the first anniversary of the coalition government, what do you think about their approach to retirement policy reform?

Robert Branagh is managing director for administration at RPMI
There have been some good developments, such as the modifications made to tax relief and auto-enrolment requirements, but other areas of policy reform have not been as well thought out. Notably, the policy relating to the switch of pension increases from RPI to CPI seemed to be rushed and has scope to be to the coalition government what dividend tax credit changes "reinvigorate occupational -pensions" will be met and further details on key items of policy reform, such as the development of the proposed state pension reform, will need to be made available before this can be judged further.

Philip Brown is head of retirement products at Partnership
In my opinion, the benefits that a Tory-Lib Dem coalition government can bring to policy development has been positively demonstrated by its approach to retirement policy so far. For example, much of the thrust behind the policy to scrap compulsory annuitisation at age 75 has been driven to meet a Conservative policy objective to help consumers with larger fund values benefit from real choice.

Equally, these proposals meet the policy objectives of the pensions minister, by throwing their weight behind the right for all consumers at retirement to receive greater incomes in retirement by shopping around for the best annuity rate.

This is a big step forward in assisting consumers to make informed decisions, and completes a journey Webb initiated when he raised an amendment to the Finance Bill debate on this topic a decade ago.

Andrew Tully is pensions technical manager at MGM Advantage
While the government has shown a commendable willingness to listen, the speed of change is the most eye-catching aspect.

Scrapping the Age 75 rule is arguably the change that will resonate most with the ordinary consumer, giving a perception of control which will encourage people to save for their retirement.

It has always been the case that people should regularly review their position as they move through-retirement. But without the 'backstop' of Age 75 to force people into action, there is a genuine risk that clients will unknowingly drift into unsuitability. Without appropriate advice, this could ultimately be very damaging for their wealth.

Gemma Goodman is head of The Annuity Bureau and DC Operations
The coalition has shown extraordinary commitment by tackling the larger issues affecting the pensions industry, but how much do these revolutionary changes affect the average person approaching retirement? The answer is: not a lot.

Recent research has revealed that when it comes to retirement, only 33% of people use the open market annuity option, meaning 67% of people are missing out on the opportunity to increase their income in retirement.

The government has expressed its frustration at the lack of people taking the open market option and has suggested it will consider taking legislative action if the insurance industry does not make the option operate more effectively. An undeniably firm step would be to make the open market option compulsory.

Peter Carter is product marketing director at MetLife
It should be a happy first year for the coalition in terms of retirement policy reform. They've scrapped compulsory annuitisation at age 75, as well as the default retirement age, while outlining reform of the state pension.

So far, so good would be my verdict on its first year. We are still waiting to see some clear action on how they will approach the debate on the default open market option, although the early signs are hopeful.

The glaring omission is a strategy for increasing pension saving by younger people. It is clear that more needs to be done to encourage saving and so far, there seems to be no co-ordinated plan to do this.

Robert Graves is head of pensions technical services at Rowanmoor Pensions
The coalition is moving in generally the right direction, bringing forward the rise in the state pension age. Removing the default retirement age allows individuals to retire later, and the Age 75 reforms give greater flexibility.

While auto-enrolment and NEST aim for greater take-up of pension saving, there is concern that employer schemes will be dumbed down. Creating a simple universal state pension will help individuals plan, but the government should take care not to undermine pension tax advantages. Abandoning early access was sensible, but they missed a trick in not allowing tax-favourable inheritability of pension funds into beneficiaries' pension arrangements.

Matthew Connell is head of government and industry affairs at Zurich UK Life
The coalition's most radical reform has been to combine the basic state pension and the state second pension, alongside a commitment to reduce the extent to which future pensioners will rely on means testing. This will make it easier to give people clear messages around the benefits of saving for retirement.

The challenge now is to help people figure out what they need to do in the new environment.

Andrew Gadd is head of research at The Lighthouse Group
I am prepared to give the coalition an eight out of ten. The most positive development for me has been that the government has recognised that the requirement to purchase an annuity by the age of 75 is outdated, closely followed by the fact that they have also simplified the annual limit and brought back carry forward relief.

On the downside, however, they have decided not to allow early access to pensions, which is -disappointing as I believe that individuals would contribute more if this flexibility (strictly controlled) was available.

David Fox is director of sales & marketing at Dentons Pensions Management
I believe that the recent legislation changes have been a big step in the right direction. Flexible drawdown, in particular, will present opportunities for IFAs. It is admirable that the changes to -legislation were made so quickly.

However, as a result, there are still some frustrating rules that can catch IFAs and clients unawares, such as the 'scheme specific' legislation that means a client in drawdown will have their income considerably reduced to the new 100% GAD limits on transfer – why?

Further flexibility with pension rules would encourage funding and to that end, allowing dependants to inherit pension death benefits into their own pensions could be a major step towards encouraging new funding and reducing the pension shortfall for future generations.

Carl Lamb is managing director at Almary Green Investments
The coalition government has had to make some brave decisions about the future of pensions in the UK. They have shown they are prepared to tackle potentially difficult issues such as the cost of public sector pensions and the financial implications of higher life expectancy.

In the main, I think the measures they are proposing are inevitable. Public sector pensions will still be a valuable benefit, even after Lord Hutton's recommendations have been implemented. Compulsory enrolment into employee schemes should help to bridge the black hole in personal pension take-up and, as a fall-back for those for whom a compliant company scheme is not desirable, NEST has the basic functionality needed.

Billy Mackay is marketing director at AJ Bell
In terms of success, scrapping the previous government's plans for a tapered contributions tax relief system, the re-introduction of carry forward of unused allowances, and changes to ASP and the 82% tax charge on lump sum death benefits have been welcomed.

In the areas for possible improvement sit issues such as the increased tax charge on lump sum death benefits for under-75s from 35% to 55% and reducing the income drawdown maximum pension for the under-75s. Both of these issues will affect the appetite to save for some investors.

As a package of changes, I would view it as a positive start. Building on what we now have and encouraging pension investors to save is where the real challenge begins.

Mike Morrison is head of pensions development at AXA Wealth
In the first year, the coalition has certainly done its best to look at all aspects of the pensions world.

My big question is whether it is all joined up and will it incentivise more people to save? Here, I am not so sure. Reduction in the annual allowance, reduction in the lifetime allowance, the continued -existence of means testing – all of which means that pensions are not so attractive. At the same time, we are all living longer and our pensions will have to provide for longer than ever before. The two do not necessarily fit together.

Steve Lowe is group external affairs and customer insight director at Just Retirement
Governments often talk a lot and don't act. That's not the case with the new administration. They should be congratulated for their execution and speed.

They have acted in areas where successive administrations have buried the issue. Removal of compulsory annuitisation is a good example and should lead in the medium term to greater -innovation in the market and, consequently, to better outcomes for consumers.

Mark Hoban MP and Steve Webb MP have a further decision to take later this year. Agreeing to scrap the open market option and replace it with a new, 21st century default 'shopping-around' process would eliminate the current outdated practice where too many customers sleepwalk between the saving phase of retirement straight into the phase where a retirement income is attained.

END

Please note this document is intended for trade and national press individuals.

Notes for Editors

Pictures available by contacting claire.juckes@ajbell.co.uk.

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