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Use the £500 advice allowance for abridged advice

Pension members considering transferring could 'withdraw' £500 of their pension fund tax-free to pay for abridged advice

By **Ros Altmann** | 18th June 2020 11:09 am

The ban on contingent charging for pension transfers has finally arrived. Transferring safeguarded benefits has been such an advice minefield that regulatory action was inevitable.

Sadly, scandals such as British Steel transfers left the FCA little choice but to act. Indeed, even before the recent problems, many IFAs had stopped advising on defined benefit transfers, as regulatory scrutiny intensified and professional indemnity insurers hiked fees or withdrew cover.

As transfer values have soared following central bank quantitative easing policies, the attraction of transfers intensified. Many of those who left their schemes were right to do so, but a significant number were influenced by rogue advisers and customers clearly need better protection.

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Contingent charging seems rather difficult to justify. Just as commission was the root cause of so many financial scandals, with salespeople rewarded for selling products regardless of suitability, paying an adviser only if the transfer goes ahead must skew incentives. Of course, the quality of an independent adviser depends on their skills and training, but that seems to actually reinforce the case against contingent charge models.

Advice is a profession offering huge added value for its customers. Advising someone not to transfer out of safeguarded pension schemes could save some customers from future penury. But surely the price of advice should reflect the professional competence of the adviser, rather than being dependent on advising one particular outcome.

Most of these proposals seem worthwhile. Perhaps requiring additional qualifications to ensure the IFA can assess investment alternatives and risk appetites will make little difference in practice, but there are several positive elements of the FCA changes.

For example, the exemption for terminal or serious illness is important. For anyone with shortened life expectancy, the exceptionally generous tax benefits for pensions on death offer a strong case for transferring-out.

The exemption for people facing enormous financial hardship is less clear-cut, but still makes sense. Obviously such individuals are unlikely to have resources to pay for advice but accessing their pension transfer money could be invaluable, even after paying tax on withdrawals, for someone with significant high-interest debts or at risk of having their home repossessed.

Requiring people to pay some thousands of pounds for a detailed analysis of the risks and benefits relevant to their own individual circumstances may put many people off, but then the worst that happens is that they do not transfer – a lower risk outcome for all concerned.

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Abridged advice

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However, the introduction of 'abridged' advice has significant potential. A simpler initial advice process can help people appreciate the benefits they have, discuss with an expert why they should not transfer and prevent many who would otherwise be tempted to leave their scheme, to stay put.

In fact, the little-known and hardly-used £500 advice allowance might be ideal for this. Pension members considering transferring could 'withdraw' £500 of their pension fund tax-free to pay for abridged advice, and trustees could be asked to agree a 'scheme pays' arrangement for this from the ultimate DB benefit.

Members could understand the financial risks and realities and, of course, if good reasons to seriously consider transferring are identified, then they could still proceed to more detailed analysis and potential transfer.

The most difficult cases likely involve members who have several small deferred entitlements, each worth tens of thousands of pounds, offering just a few pounds a week pension income.

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From a financial planning perspective, transferring some out, while leaving others alone, would allow diversification and taking advantage of potential tax advantages of defined contribution relative to DB schemes. If the individual has a large DB entitlement elsewhere or if small amounts of added income are clearly likely to be immaterial to living standards in later life, the skill and judgment of an IFA come into their own, but such situations could be problematic for the adviser in the new regime.

Overall, though, these proposals are sensible. If they generate greater confidence and professionalism in the advice sector, both advisers and customers with be better off.

Ros Altmann is former pensions minister