HM Treasury

Introducing a Pensions Advice Allowance:

response to the consultation

February 2017

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1 Introduction

Background to this document

1.1 The government is committed to ensuring that consumers are supported in making good financial decisions. The pension flexibilities introduced in April 2015 gave savers the ability to access their hard earned pension savings flexibly, as best suits their needs. This means that many consumers have a wider range of options to consider when they reach retirement.

1.2 The government announced at Budget 2016 that, as recommended by the Financial Advice Market Review (FAMR), it would consult on introducing a Pensions Advice Allowance. This would allow people to take £500 tax free from their defined contribution pension to redeem against the cost of financial advice.

1.3 FAMR set out a strong case for the introduction of this allowance. FAMR found that there is an 'advice gap' for retirement advice for people without significant wealth. High quality financial advice can have a significant impact on retirement incomes, and people often increase their savings rate as a result of taking advice. For example, research by Unbiased found that those who sought retirement advice increased their retirement savings by an average of £98 a month. However, less than a third of people have accessed financial advice on their pension. FAMR found that many people perceive financial advice to be unaffordable or 'not for people like them'.

1.4 The Pensions Advice Allowance is intended to increase the accessibility and affordability of financial advice about retirement in a number of ways:

- advice will be more affordable due to tax relief
- people will not have to pay large fees out of their current income
- it will act as a nudge for people to consider taking financial advice

1.5 In August 2015, the government published the consultation on 'Introducing a Pensions Advice Allowance'. The consultation closed on 25 October and ran for 8 weeks. 59 responses were received, including from pension providers, consumer groups, pension trustees and financial advisers.

Summary of the design of the allowance

1.6 As set out in the consultation document, the government will implement the Pensions Advice Allowance by introducing a new authorised payment for funds withdrawn from a registered pension scheme that are used to pay for pensions advice or retirement advice.

1.7 Further details are summarised below:

- the allowance will be limited to up to £500 per use
- the allowance will be available at any age
- individuals will be permitted three uses of the allowance in their lifetime, no more than once per tax year
- the £500 will not be taxed on withdrawal from the pension pot, regardless of the individual's income

- the allowance can be withdrawn from defined contribution pensions and hybrid pensions with a money purchase or cash balance element
- the payment of the allowance must be made direct from the pension scheme to the adviser
- the allowance will only be available for regulated financial advice
- the allowance can be used alongside the tax exemption for employer arranged pensions advice
- the allowance will be publicised through nudges designed by the Financial Advice Working Group and signposted by Pension Wise
- the allowance will come into force from April 2017

1.8 HMRC will publish full guidance on the allowance shortly after it comes into force.

Structure of this document

1.9 This document is the government's formal response to the 'Introducing a Pensions Advice Allowance' consultation.

1.10 Chapter 2 provides more detail on the design of the Pensions Advice Allowance, building on the model outlined in the consultation document. The chapter sets out:

- how the allowance will be implemented
- its scope
- how often the allowance can be used and by whom
- the obligations on providers who choose to offer it
- how the allowance interacts with the increase to the tax exemption for employer arranged pensions advice announced at Budget 2016

1.11 Chapter 3 provides a summary of responses to the consultation and provides the government's response to stakeholders' views. The vast majority of responses received to the consultation were supportive of the government's proposed changes.

1.12 Draft regulations have also been published alongside this response. The government is conducting a technical consultation on these regulations that will close in 3 weeks.

1.13 Annex A lists the 59 respondents to this consultation.

2 More detail on the design of the Pensions Advice Allowance

2.1 The consultation document on 'Introducing a Pensions Advice Allowance' set out the government's preferred design for the allowance, and sought views on a number of outstanding policy questions, including the age at which the allowance should be offered, and whether the allowance should be available to individuals more than once.

The design of the allowance

2.2 In the consultation document, the government set out the relevant FCA rules and the statutes and regulations governing pension schemes. Financial Conduct Authority (FCA) rules allow a pension provider, in limited circumstances to withdraw funds from a client's investment product to pay for financial advice on their behalf. This is permitted only at the express request of the client. The provider reduces the value of the client's pension fund by the amount of the advice fee, and transfers these funds directly to that client's adviser. This is known as facilitation of adviser charges. Similar provisions are available for trust based pension schemes.

2.3 Under the current tax rules, using this method to pay for holistic retirement advice on all of an individual's pension products would be an unauthorised payment and may incur a tax charge of at least 55%. This is because, currently, the advice given must only relate to the pension product the advice fee is taken from.

2.4 The government proposed creating a new authorised payment for pensions, allowing providers to facilitate adviser charges for holistic retirement advice without incurring any tax charges. This design was intended to minimise burdens on providers by allowing them to use the existing systems they have in place to facilitate adviser charges from customers' pensions.

2.5 Respondents to the consultation expressed strong support for this model, as well as for the proposal more generally. Therefore, the government will be introducing the Pensions Advice Allowance using a new authorised payment for pensions. The government will use secondary legislation to introduce the new authorised payment by April 2017. More detail on how the allowance will operate is set out below, and in the draft regulations published alongside this response.

2.6 A key theme amongst responses was that the design of the allowance should be as simple as possible, minimising requirements that would need systems changes and avoiding burdensome monitoring regimes. This would encourage providers and trustees to make the allowance available to more of their customers. The government has reflected this in the final design of the allowance.

The new authorised payment for pensions

Defining 'retirement advice'

2.7 The government will introduce a new authorised payment for up to £500 withdrawn from a pension pot and used to pay for pensions advice or retirement advice. 'Retirement advice' is intended to include a consideration of other factors, including other assets, which are relevant to an individual's retirement planning. The scope of the allowance reflects the fact that it is not possible to make decisions about pensions in isolation from other aspects of an individual's finances. 'Retirement advice' does not only refer to advice given immediately before pension benefits are crystallised. It can be given at any stage before or during retirement.

2.8 The sorts of scenarios that will be in scope of the allowance are:

- advice on how to draw an income for retirement from all of an individual's pension pots, and from a stocks and shares ISA
- advice on whether income from a pension will be sufficient for an individual's retirement, or whether they may want to supplement this income by releasing equity from their house
- advice on whether the asset allocation of a drawdown product is appropriate given the individual's exposure to certain asset classes within other financial products they own
- advice on how to use assets to fund care in old age

2.9 The allowance will not include advice that is not strictly related to retirement. Scenarios might include:

- advice on inheritance tax planning
- advice solely on an investment fund that will not be used for retirement income

2.10 As is the case under the current tax rules, the Pensions Advice Allowance can be used for implementation and administration costs associated with the advice given. For example, if an adviser recommends that their client switch to a new pension fund, and implements the switch on their behalf, the adviser may charge for carrying out that work using the Pensions Advice Allowance.

2.11 Advisers should continue to be aware that advice on some types of occupational pension schemes is not fully regulated. This is partly determined by whether the rights held by a member under a pension scheme (whether it is trust based or contractual) are a specific type of regulated investment. Advisers should only request withdrawals of the allowance to fund fully regulated advice. Further information on whether advice on certain types of occupational pension schemes is regulated can be found at:
https://www.handbook.fca.org.uk/handbook/PERG/10/4.html?date=2016-10-13

2.12 Providers and trustees should note that the above restrictions do not prevent the allowance being withdrawn from the schemes in question to fund fully regulated advice on other products.

2.13 The government has released a 3 week technical consultation on the draft regulations alongside this response to ensure that they are workable in practice, and that the scope of the allowance set out above is captured effectively.

Amount

2.14 The Pensions Advice Allowance will be set at a maximum of £500 per use. This reflects the fact that the government expects more affordable advice propositions to come to market as a result of FAMR. FAMR made recommendations which aimed to reduce the cost of financial advice, such as producing guidance on streamlined advice which allows advisers to give advice on specific needs without conducting an overly time consuming and expensive fact find.

2.15 Additionally, the Financial Conduct Authority (FCA) launched their Advice Unit in May, as recommended by FAMR. It will provide regulatory support to help firms developing automated propositions to bring them to the market more quickly. FAMR concluded that automated advice services are likely to be an affordable solution for mass market consumers with relatively simple advice needs. The government supports this conclusion.

2.16 Therefore, whilst the government acknowledges respondents' concerns that £500 is not likely to be sufficient to cover the costs of a full, face to face holistic retirement advice process, it would be counterproductive to adopt a higher limit for the Pensions Advice Allowance which may discourage advice providers from offering their services for less than £500. In response to respondents' concerns, the government will keep the level of the Pensions Advice Allowance under review as the advice market adjusts to FAMR's recommendations, by assessing the functioning of the Pensions Advice Allowance as part of the FAMR 3 year review. The Treasury and FCA committed to this review following the FAMR final report.

2.17 This chapter will also outline how the Pensions Advice Allowance can be combined with the tax exemption for employer arranged financial advice to give an individual access to up to £1000 of tax advantaged advice.

Age

2.18 The government will not impose any maximum or minimum age limit on the allowance.

2.19 A significant number of respondents to the consultation called for the Pensions Advice Allowance to be available to individuals of any age. This is because consumers can benefit from advice on pensions planning at any stage of their lives, particularly at a younger age when any additional contributions will be maximised by the effects of compound interest. Additionally, opening the allowance up to pension savers of any age will make administering the allowance simpler for providers and trustees.

Number of uses

2.20 Individuals will be permitted to use the allowance three times in their lifetime, and no more than once in each tax year. This will allow them to get advice at different stages of their lives, for example once at retirement, and then again to plan for their long term care.

2.21 The allowance will be operated using a self-declaration system, under which users of the allowance must declare that they have not used the allowance more than three times in total. Respondents were clear that a complicated system to monitor how many times individuals have used the allowance would discourage them from offering it. Therefore, providers and trustees will not be required to report the numbers of times people use the allowance. Providers and trustees should consider making individuals aware that there could be a 55% tax charge if they are found to have misused the allowance.

2.22 In the case of misuse, an unauthorised payment tax charge will be applicable in accordance with the existing HMRC guidelines on unauthorised payments set out at https://www.gov.uk/guidance/pension-schemes-and-unauthorised-payments.

2.23 Providers, trustees and advisers are still expected to operate with basic due diligence to prevent misuse of the allowance. For example, if a provider sees that an individual has already used the allowance three times for that pension scheme they should not execute the withdrawal, or should report the unauthorised payment to HMRC on the event report. Additionally, if a scheme has reason to believe retirement advice has not been taken, they are expected to follow HMRC's existing unauthorised payment process.

2.24 Equally, if advisers see clearly in documentation from previous advice sessions that the allowance has already been redeemed three times, they should not put their client at risk of an unauthorised payment charge.

Scope of the allowance

2.25 The proposed scope of the allowance will be expanded to include both defined contribution schemes and hybrid arrangements with a money purchase or cash balance element. This is to reflect responses from some defined benefit pension schemes who wished to offer the allowance for members with Additional Voluntary Contributions.

2.26 The allowance should be withdrawn from FCA regulated schemes in accordance with FCA rules. These rules state that the product provider may not pay out the adviser charges over a different time period to that in which they recover the charge from the client's funds, and that all fees paid to the adviser must be recovered from the client. Trustees should follow the statutes and regulations governing pension schemes. The government will not impose any additional requirements on withdrawals from hybrid schemes.

2.27 Although a number of respondents argued that the Pensions Advice Allowance should be available for guidance services, the majority of respondents agreed with the government that the use of the allowance should be restricted to regulated advice only. Respondents generally accepted that there are risks associated with allowing unregulated guidance providers to access people's pension funds.

2.28 Additionally, whilst it is permitted for guidance providers to charge for their services under current rules, most guidance bodies and providers offer these services for free. The government is clear that it does not want to encourage firms currently offering guidance for free to begin to charge for these services. In light of this it would not be appropriate to allow the Pensions Advice Allowance to apply to guidance services.

The tax treatment of the allowance

2.29 The £500 will not be taxed on withdrawal from the pension pot, regardless of the individual's income for that tax year.

2.30 Taking their Pensions Advice Allowance will not affect the individual's ability to take up to 25% of the remaining funds in their pension pot as a tax free lump sum when they ultimately come to take their benefits: the Pensions Advice Allowance taken will not be deducted from the maximum permitted pension commencement lump sum. It will not count as a Benefit Crystallisation Event. There is also no restriction on taking the Pensions Advice Allowance based on the crystallisation status of the fund.

2.31 Respondents requested clarification on the VAT status of the Pensions Advice Allowance. As VAT rules are set at EU level, the government does not have the power to add an exemption from VAT for pensions advice funded through the allowance. This means that while the £500 is not taxed on withdrawal from the pension, the adviser must still charge VAT on their services where applicable.

2.32 It is worth noting that financial advice is exempt from VAT if it forms part of the 'intermediation' by the adviser between their client and the provider of a VAT exempt financial product. To qualify for exemption from VAT, the adviser needs to evidence that there has been interaction between the adviser and the product provider in relation to the sale of VAT exempt products on behalf of the customer. This means that, in practice, in many cases advice purchased using the allowance will not incur VAT. HMRC's guidance on this issue is available at: https://www.gov.uk/hmrc-internal-manuals/vat-finance-manual/vatfin7665

Requirements on FCA regulated providers

2.33 Respondents requested clarification on a number of regulatory and liability issues. The government is clear that it does not want to create a complicated, bespoke regulatory and statutory regime for the allowance. This would overcomplicate the design of the allowance, making it difficult for providers to offer. This section therefore clarifies how existing rules and regulations will apply to the Pensions Advice Allowance.

2.34 The withdrawal of the allowance must be executed in line with the existing rules for adviser charging set out in FCA rules. The existing rules and regulations do not stop providers from applying their own 'reasonability' checks if they wish to do so, such as capping the percentage of an individual's pension fund that can be withdrawn to pay for advice, and the government will not change this. The government believes that it is right that providers should be able to act to prevent withdrawals that would not represent good value for money if they wish to do so. However, there is no obligation on providers to determine what is an acceptable level of adviser charges.

2.35 Respondents requested clarification on the steps they have to take to verify that a financial adviser is authorised. It is for providers themselves to determine who they want to undertake business with and ensure they have appropriate systems and controls in place to manage any potential risks.

Trust based pension schemes

2.36 Trust based schemes were concerned that they would be liable for advice provided to their members by third party advisers, and said that they would feel more comfortable offering the allowance if they were able to limit the use of the allowance to advisers approved by them. There is no barrier to trustees or providers offering members a tie-in arrangement with third party advisers. It is for providers and trustees to determine who they do business with. The FCA and The Pensions Regulator will also release a fact sheet in early 2017 which clarifies that, generally, trustees will not be liable for advice given by a third party.

2.37 Some trust based pension schemes that responded to the consultation suggested that pension scheme rules may require amendments to include explicit permission for the scheme to make deductions from members' pots to cover charges for advice. This would incur a cost. In order to prevent a cost from being incurred, respondents asked that the government consider a statutory override that would allow any occupational pension scheme to offer the allowance, regardless of their scheme rules. However, a number of respondents noted that the cost of changing scheme rules is likely to be small.

2.38 Given the split amongst respondents, the government concludes that the consultation has not yielded sufficient evidence to justify a statutory override, but will consider any new evidence at the FAMR 3 year review.

2.39 As set out in the consultation document, the government has introduced regulations designed to ban any new commission arrangements in certain defined contribution pension schemes that are used by employers to comply with their automatic enrolment duties. These regulations prevent scheme members from being charged to cover the cost of commission payments made by service providers to advisers. However, the regulations enable members to agree to charges for advice and services provided by an adviser to the member where they provide their explicit consent, subject to certain conditions, including that the agreement must be in writing.

2.40 Similarly, members may benefit from statutory restrictions on charges under regulations introduced by the Department for Work and Pensions in April 2015. However, a member may opt in to non-core services and agree to charges above the level of the statutory charge cap, subject to certain conditions. These regulations will apply to the Pensions Advice Allowance.

Interaction of the allowance with the tax exemption for employer arranged pensions advice

2.41 The government is introducing a new income tax exemption to cover the first £500 worth of pensions advice provided to an employee in a tax year. It will allow advice not only on pensions, but also on the general financial and tax issues relating to pensions. The changes replace existing provisions which limited the exemption solely to pensions advice and was capped at £150 per employee per tax year.

2.42 This tax exemption will be available for salary sacrifice arrangements between an employer and employee. Additionally, where an employer reimburses an employee for pension advice they have arranged, this will be covered by the exemption.

2.43 More information on the tax exemption for employer arranged pensions advice can be found at: https://www.gov.uk/government/publications/employer-arranged-pensions-advice-exemption. HMRC will publish further guidance once the change comes into effect.

2.44 The government can confirm that it will be possible to combine this tax exemption with the Pensions Advice Allowance to enable individuals to access up to £1000 of tax advantaged financial advice. The use of one exemption does not prevent an individual from accessing the other.

Communications

2.45 The Financial Advice Working Group will consider how best to make consumers aware of the Pensions Advice Allowance as part of their work on rules of thumb and nudges. Signposting to the allowance will also be included as part of a Pension Wise session where appropriate and on the Pension Wise website. Respondents supported both these options.

2.46 A number of respondents requested a statutory requirement on providers to disclose the details of the allowance, including prescribed wording. The government is encouraging providers and trustees to make their members aware of the allowance, but is not intending to place a statutory requirement on providers. This will enable providers and trustees to publicise the allowance in the most appropriate way for their scheme.

Next steps

2.47 HMRC is conducting a short technical consultation on the draft regulations. This consultation will close in 3 weeks time.

2.48 The allowance will come into force in April 2017.

2.49 HMRC will publish full guidance on the allowance shortly after it comes into force.

3 Summary of responses

3.1 The consultation on 'Introducing a Pensions Advice Allowance' closed on 25 October and ran for 8 weeks. 59 responses were received, including from pension providers, consumer groups, pension trustees and financial advisers.

3.2 This section summarises the responses by question. The government has taken these views into account in developing the final design of the Pensions Advice Allowance set out in Chapter 2.

3.3 A list of respondents to the consultation is included at Annex A.

Questions 2-4: The design of the Pensions Advice Allowance

3.4 The vast majority of respondents were supportive of the proposal to introduce a Pensions Advice Allowance. Most respondents welcomed the proposed design, particularly the proposal to implement the allowance by utilising the existing adviser charging system. Respondents emphasised that the design of the allowance should be as simple as possible to minimise burdens on firms, encouraging them to offer the allowance.

3.5 A small number of respondents proposed that the government entirely removes the restriction requiring that pension funds can only be used to pay for advice on the product from which they are taken. They argued that this would make administering the allowance simpler, as providers would not have to note when an adviser charge is an instance of the Pensions Advice Allowance. The government agrees that the design of the allowance should be as simple as possible. However, the government believes that this would enable wealthy consumers to use tax advantaged pension funds to pay for holistic retirement advice without restriction, without benefiting individuals who struggle to afford advice.

Scope of the Advice

3.6 The majority of respondents agreed that the allowance should be available for wider retirement advice. A small number of respondents said it should only be available for wider retirement advice rather than advice focussed on specific pensions needs, arguing that holistic advice is more beneficial to consumers. However, this view was not widely held.

Amount

3.7 A number of respondents pointed out that £500 will not be sufficient to cover face to face, holistic advice at retirement. A couple of respondents also suggested that setting the allowance at £500 may create a risk that consumers see this as a 'price point' for financial advice, making them reluctant to pay fees that are any higher, even if this could benefit them. Other respondents noted that £500 would still be a significant contribution towards financial advice, and that this could cover the cost of a robo-advice service. Given the split amongst respondents, the government believes that on balance £500 is an appropriate limit for the allowance.

3.8 In contrast to calls for the limit to be raised, other respondents argued that withdrawing £500 could significantly deplete the pension funds of those will small pots. Some respondents suggested that this risk could be mitigated by introducing a cap on the percentage of a pension that can be withdrawn to pay for advice. The government will maintain providers' existing ability to put 'reasonability' requirements on withdrawals for adviser charging in response to this concern. For customers with very low levels of pension wealth, it is right that providers are able to act to prevent withdrawals that clearly represent poor value for money and would significantly deplete the individual's pot.

Multiple uses

3.9 The majority of respondents were very supportive of the proposal to allow multiple uses of the Pensions Advice Allowance. They noted the value of being able to use the allowance at different life stages. Some respondents suggested that in addition to the permitted 3 uses, certain life events such as divorce, or the death of a partner should make individuals eligible to use the allowance. However, bearing in mind respondents' emphasis on the importance of simplicity, the government considers that adding additional eligibility conditions would not be beneficial.

3.10 Respondents supported restricting the number of uses to 3. They agreed with the government's argument that this would prevent wealthier individuals disproportionately benefitting from the policy, and added that this would also prevent individuals significantly depleting their pension funds.

3.11 Providers and schemes who responded felt strongly about how the number of uses of the allowance would be monitored. They noted that it is not possible for providers to police how many times a customer has used the allowance, as they may have pots with other providers. They argued that a burdensome reporting regime would make it difficult to administer the allowance.

3.12 The government agrees with respondents that a burdensome reporting requirement would make it more difficult to offer the allowance, and has proposed that users of the allowance self-declare how many uses of the allowance they have had.

Age

3.13 There was little consensus amongst respondents on the ideal age to offer the allowance. Suggestions included age 40, 50 and 55. A significant number of respondents argued that there should not be an age limit, as individuals can benefit from advice on pensions at any age, for example in the accumulation phase.

3.14 A small number of respondents argued that permitting use of the allowance at an early age would mean that individuals miss out on investment growth on the £500 that is withdrawn. The government believes that any investment growth lost on funds withdrawn using the allowance is likely to be outweighed by the positive impacts of receiving financial advice; individuals who receive financial advice are likely to save significantly more into their pension pot, and are likely to have a more effective investment strategy.

3.15 The government acknowledges the arguments put forward by respondents in favour of removing the age restriction on the Pensions Advice Allowance. The government agrees that individuals can benefit from pensions advice at an early age, and notes that having no age limit will make the allowance simpler for providers to administer.

Question 7, 11 and 12: the scope of the allowance

3.16 Respondents were split on whether the allowance should be restricted to defined contribution pensions only. A number of respondents accepted the government's arguments that it would be disproportionately complex to administer the withdrawal of the allowance from a defined benefit pension. Other respondents argued that as the allowance is not mandatory, it should not be restricted to certain products; it should be available for any product should the provider choose to offer it. However, while a small number of providers may be interested in offering the allowance for defined benefit schemes, the government anticipates that the majority of defined benefit providers will not offer it. Extending the allowance to defined benefit schemes could create an expectation amongst consumers with defined benefit schemes that the allowance will be available to them. This would be misleading.

3.17 Some providers of defined benefit pensions that offer Additional Voluntary Contributions requested that the allowance be available for hybrid schemes, as the allowance could be withdrawn from the defined contribution element of the scheme. The government will be extending the allowance to hybrid schemes with a money purchase or cash balance element in response to these requests.

3.18 Respondents raised some difficulties in offering the allowance for products with guarantees and with-profits funds. In response to these difficulties, some respondents suggested that the allowance shouldn't be available for products with guarantees. The government acknowledges these concerns, but adding more restrictions on the types of products that the allowance can be withdrawn from is likely to overcomplicate the design of the allowance and make it more difficult for providers to offer. The government therefore will not prohibit the use of the allowance for schemes with guarantees, but is clear that it is a provider's choice whether or not to offer the allowance on the products in their range.

3.19 Some respondents suggested that the allowance should be available for guidance. Whilst many respondents agreed with the government's point that offering the allowance for guidance could allow unregulated individuals access to people's pension pots, some respondents argued that regulated individuals should be allowed to charge for guidance services using the allowance. However, the government is concerned that this could encourage firms to start charging for guidance services that are currently available for free, so to prevent this, the allowance will be available for regulated advice only. A number of respondents shared this concern.

Questions 1, 8, 9, 10 and 15: the availability of the allowance

3.20 There was a general consensus amongst the respondents that the existing provisions for facilitated adviser charging are widely used for modern pension products, developed after the Retail Distribution Review in 2013. One major provider noted that of their customers, over half are invested in modern products that can facilitate adviser charging. Another major provider suggested that the vast majority of their customers would be able to access adviser charging facilities.

3.21 Respondents noted that few legacy products facilitate adviser charging. Respondents generally agreed with the government's view that this is because a low level of consumer demand for charging facilities on these products or schemes means that the investment in building charging options is not always worthwhile. A number of respondents noted that customers in legacy products may be able to access adviser charging facilities in the future, as more customers choose to transfer into more modern contracts that offer pensions flexibility.

3.22 Some respondents suggested that the use of adviser charging is less common in occupational, trust based schemes. Respondents suggested a number of reasons for this; a perceived lack of value by the employer and a lack of engagement from members.

3.23 The majority of respondents welcomed the fact that offering the allowance was not mandatory, pointing out the costs associated with offering the allowance for certain types of products and schemes.

3.24 There was a small number of requests for other ways for individuals to access the tax benefits associated with allowance if their pension provider does not offer it, for example by requesting a refund through their tax return. Based on responses to the consultation, the government is optimistic that most people will have at least one pension product that offers the allowance. Therefore the government does not judge introducing an additional mechanism to be proportionate or necessary. Additionally, if the government did introduce another way for individuals to claim the allowance, pension providers may be discouraged from offering the allowance themselves, making it more difficult for consumers to take advantage of the allowance.

Question 13: trust based schemes

3.25 Of the trust based pension schemes that responded, respondents were split on how difficult it would be to offer the allowance. Respondents stated that they may need to change their scheme rules to enable them to offer the allowance. However, whilst some said this change would be relatively straightforward, others were concerned about the costs they may incur, such as the cost of legal advice.

3.26 Some respondents pointed out that these costs may discourage some schemes from offering the allowance if there was no demonstrable demand amongst members, and noted that a permissive statutory override would prevent schemes incurring costs. However, other respondents thought it would be possible to offer the allowance without a statutory override.

3.27 Responding schemes were concerned about being liable for the advice given to their scheme members. Schemes varied in how they would address these worries; whilst some said that they would appoint a panel of approved advisers, others said that choosing an adviser should be the explicit responsibility of the scheme member. The design of the allowance will permit both these options. Additionally, FAMR found that trustees could benefit from clarification on this issue; the FCA and The Pensions Regulator will publish a fact sheet in early 2017 dispelling some of the myths about trustee liability.

Question 14: automated advice

3.28 FAMR found that automated advice has the potential to deliver affordable advice to the mass market so, to address the advice gap, it is important that the allowance is available for these services. A small number of respondents stated that they did not think automated advice services would be able to offer the allowance easily. This is because some automated advice services ask for payment before pension details have been collected. However, automated advice providers who responded did not share these concerns. Therefore, the government will not take any action in relation to this point.

Question 5: consumer awareness

3.29 Largely, respondents agreed with the suggestions on how publicise the allowance that were set out in the consultation paper. Respondents built on the government's suggestions that employers, providers and guidance bodies should publicise the allowance, suggesting, for example, the signposting to the Pensions Advice Allowance in Annual Benefits Statements and as part of a Pension Wise session. Respondents also supported the proposal to ask the Financial Advice Working Group to consider how the allowance should be promoted.

3.30 Some respondents suggested that there should be a statutory requirement on pension providers and employers to make consumers aware of the allowance. However, as pension providers and employers have expressed willingness to communicate the availability of the allowance, the government does not consider a requirement to be necessary.

3.31 A few respondents noted that it is important to ensure that communications do not imply that regulated financial advice is the best choice for everyone, regardless of their pension wealth. Providers authorised by the FCA are already required to be fair, clear and not misleading.

Questions 6 and 16: fraud and protected characteristics

3.32 Respondents generally felt that the allowance being transferred directly to a regulated adviser meant that the risk of fraud increasing as a result of the allowance being introduced is very low. However, they also noted that vulnerable consumers, including those with protected characteristics are most likely to be targeted by fraudsters.

3.33 Some respondents suggested the risk to consumers could be mitigated if providers were able to take action if they saw that consumers had used the allowance many times or in quick succession. The government has clarified that providers will continue to be able to conduct their own 'reasonability checks' on the use of adviser charging by their customers.

3.34 The government also wishes to draw respondents' attention to the recently proposed ban on cold calling in relation to pensions. The proposed ban would prevent fraudsters from contacting vulnerable consumers about their pension savings. The consultation on the proposed ban closes on 13 February and is available at the following link:
https://www.gov.uk/government/consultations/pension-scams.

A List of respondents

Association of British Insurers

Aegon

Aon

Association of Professional Financial Advisers

Armstrong Watson Financial Planning

Association of Accounting Technicians

Association of Member Nominated Trustees

Association of Member Directed Pension Schemes

Association of Pension Lawyers

Association of Consulting Actuaries

Avanti Group UK

BT Pension Scheme Management Limited

Capital Life and Pensions Regulated Services and Capita Employee Benefits

Cathy Williamson

Chartered Institute of Personnel and Development

Chartered Institute of Taxation

City of London Police

Dynamic Planner

Equity Release Council

Fidelity International

Financial Services Consumer Panel

First Actuarial

Institute and Faculty of Actuaries

Institute of Directors

Investment and Life Assurance Group

JLT Employee Benefits

JRP Group

K Kelleher

Kingfisher PLC

Legal and General

Low Incomes Tax Reform Group

LV=

Mark Thornton-Smith

Mattioli Woods

Mercer

Metlife

National Federation for Occupational Pensioners

NEST

Nutmeg

Pensions Policy Institute

The Personal Finance Society

Prudential

Quentin Croft

Royal London

Saga Investment Services

Scottish Widows

SimplyBiz

Society of Pension Professionals

Society of Later Life Advisers

Standard Life

Sterling Trust

Tenet Group Limited

The People's Pension

The Pensions Advisory Service

Universities and Colleges Employers Association

Universities Superannuation Scheme

Virgin Money

Willis Towers Watson

Zurich

HM Treasury contacts

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