

## Chapter 1

# Managing pensions changes

*New Model Adviser*® research has identified advisers' key concerns around changes to pensions legislation such as the age 75 rule, auto-enrolment and tax changes. Here, a number of planners explain the opportunities and challenges they see coming as a result.

## DAVID SANDHAM

There are many pensions changes taking place at the moment, but which are the most important for IFAs' businesses?

*New Model Adviser*® research shows advisers believe the most important change affecting their businesses is the abolition of the obligation to buy an annuity at age 75.

Pensions tax changes come a very close second and advisers rank auto-enrolment as a relatively less important change.

The scale of the changes is putting pressure on advisers.

'The big issue is the speed of change,' says Saran Allott-Davey, director of Heron House Financial Management.

'The challenge is communicating to our clients between now and 5 April about the steps they need to take.'

Allott-Davey's firm sent out a newsletter after the December 2010 changes, but is now considering holding a seminar because things are so complicated.

'We did a newsletter and two lawyers who are clients came back to us and said we understand it but now have to lie down in a darkened room to recover,' she says.

Nicola Downs, director of Trentham Invest, has created a menu of pension change reports. 'Personal relationships

built on trust and knowledge over time makes this exercise much easier for the adviser and the client,' she says.

'We know who needs what and can help advise what reporting tests they should have.'

Caroline Banks & Associates is busy 'checking all pension input periods' for her clients, says managing director Caroline Banks.

Andrew Chorley, managing director of Financial Planning Wales, is trying 'to remain open minded on the subject and not make any firm decisions' about dealing with the pension changes.

## Some changes welcomed

However, those changes that have moved things in the direction of simplicity are welcomed by advisers.

For example, the new figure for the annual pensions allowance of £50,000 'is a simple figure people can understand,' says Allott-Davey.

Last autumn, the government said the annual pensions allowance will be lowered from £255,000 to £50,000 per annum and the lifetime allowance will drop from £1.8 million to £1.5 million.

The reduction from £50,000 from £255,000 'sounds

The scale of the changes is putting pressure on advisers

## Tax planning

dramatic,' says Vince Smith-Hughes, head of business development for retirement income, Prudential.

'But in practice the anti forestalling rules were prohibiting high levels of contributions for many people any way,' he adds.

Andrew Reeves, director of The Investment Coach, thinks that an important change will be 'the reduction in complexity when the anti-forestalling rules fall away.'

He says of the reduction to £50,000: 'This is a big factor but the drop is not as big as I feared and the carry forward facilities make the change more palatable.'

### Age 75 rule

The age 75 rule change was, by a small margin, the single most important pension change affecting advisers' business, according to the *New Model Adviser* survey.

At the end of last year, the government said it would change the rule that requires pension holders to buy an annuity when they reach the age of 75.

Under the new rules they will be able to defer the decision indefinitely as long as they are wealthy enough to maintain an income of at least £20,000 a year.

Chorley is among the many advisers who think the abolition of the obligation to buy an annuity at age 75 is the most important single change affecting his firm.

'This is key,' he says, because his clients 'want to remain in control of assets and retain income flexibility – locking in to historically low annuity rates is not an attractive option to them.'

Banks welcomes it as a 'good development'.

As with the change in the pension allowance, the age 75 change is perhaps not as dramatic as it might appear from the headlines.

Downs points out that even prior to the change, 'It has not been mandatory to buy an annuity as clients reaching age 75 can enter alternatively secured pension (ASP).'

Reeves says the age 75 change is 'useful, as it takes one of the perceived inflexibilities of pensions away'.

However, many of his clients will still be looking at an annuity in order to remove the personal investment risk, 'particularly where they can get enhanced annuity rates', he says.

Smith-Hughes also balances the increased flexibility of the change against the ability of an annuity to shed risk.

'Some IFAs will have clients who will want to stay in USP - unsecured pension - past 75. However, the flexibility of this must be balanced against mortality drag which means for many, an annuity of some type

will still be appropriate at some stage for clients in drawdown,' he says.

### Auto-enrolment

Another potentially important change considered by advisers is auto-enrolment.

From 2012 onwards, employers will have to automatically enrol all eligible employees into a qualifying workplace pension scheme.

They will have the choice between auto-enrolling their employees into the National Employment Savings Trust (Nest) or a qualifying private arrangement.

This is a huge change for employers – especially smaller employers who have no experience of enrolling employees in pension schemes. But there was considerable division among advisers as to what opportunities auto-enrolment offers their firms.

'Absolutely none,' says Banks.

Chorley concurs and says his firm has 'no detailed plans to advise employers on this at present'.

In contrast, Reeves thinks the opportunities for his firm are 'massive. This is a market where we are working hard to launch a joined up proposition,' he says.

Reeves' firm is undergoing training with Paradigm Pensions 'and using some of their tools', he says.

Many advisers who see auto enrolment as an opportunity are trying to expand their client base by helping employers understand the new rules and ensure their arrangements are appropriate.

Downs sees the auto-enrolment change as an opportunity to provide 'education for company directors, [and] business owners in so far as they need hand holding when looking at how the new legislation is going to affect them'.

But she adds: 'We are not interested in arranging or administering a company pension scheme – there are plenty of experts out there who can do that – it is not one of our services.'

However, helping directors and business owners cut through the noise "in double fast time to enable them to make an intelligent decision is exactly what we do,' she says.

'Auto-enrolment is a chance to provide education for company directors and business owners'



**Nicola Downs**

Trentham Invest

