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# **Introducing a requirement for businesses to check that individuals have received financial guidance or advice before transferring, or otherwise dealing with, their pension annuity payments**

**HM Treasury**

**RPC rating: fit for purpose**

## **Description of proposal**

In April 2017 the Government will remove the existing tax restrictions that deter many annuity holders from selling their annuities for a lump sum; this will create a secondary market in annuities that does not currently exist. The Government has legislated through the Bank of England and Financial Services Act 2016 to:

- expand the Government's free and impartial Pension Wise service so that it can offer guidance and information to consumers thinking of selling their annuities; and
- require, in effect, those seeking to sell incomes from annuities worth more than a specified value to receive financial advice. The threshold value will be specified in subsequent secondary legislation.

HM Treasury proposes to introduce primary legislation that will, in effect, require all consumers with annuities below the threshold for the advice requirement to receive free Pension Wise guidance, or pay for financial advice if they prefer, before incurring any costs associated with selling their annuity.

## **Impacts of proposal**

HM Treasury explains that the costs, provided in this IA, are indicative only and that a further IA will be submitted for validation of the costs and benefits of the proposal; this is because two key aspects affecting these costs have not yet been specified, namely:

- the threshold annuity value for the advice requirement will be specified in secondary legislation; and
- the list of firms responsible for checking that consumers have met this requirement will be specified by the FCA.

At secondary legislation stage, HM Treasury will be consulting on a range for the advice requirement threshold of between £2,000 and £5,000 of annuity income per year. To provide a conservative indicative estimate of the impact on business of the guidance proposal, HM Treasury assumes that the advice requirement threshold is set at £5,000. HM Treasury expects that the FCA will specify that the annuity provider, intermediary, or purchaser is responsible for performing the required checks. HM Treasury believes it is most likely that the annuity provider will be specified by the FCA, so this is assumed in the analysis.

HM Treasury estimates that 5% of the 6 million annuities currently in force will be sold. HM Treasury assumes that all annuitants wishing to sell will do so in the first year of the ten-year appraisal period. This assumption follows the approach taken in a HMRC analysis of the impact of establishing a secondary market in annuities on tax revenue and has been certified by the Office for Budget Responsibility.

It is estimated that approximately 93% of the annuities currently in payment provide an income below £5,000 per year. On this basis, HM Treasury estimates that 279,000 annuities will be subject to the guidance requirement in the first year of appraisal period and none thereafter.

To satisfy the guidance requirement, consumers may choose to receive either financial advice or free Pension Wise guidance. Using 'Retail Investments Product Sales Data' from the FCA for 'personal pensions', HM Treasury conservatively assumes that 37.5% of consumers (104,625) wishing to sell will choose to take financial advice to meet the requirement, and the remaining 62.5% (174,375) will use Pension Wise.

The main cost to business will arise from the requirement to perform checks that guidance or advice has been received. Based on engagement with industry, HM Treasury expects it to take 5 minutes to carry out a check that an individual has taken Pension Wise guidance and 10 minutes to check an individual has taken less standardised financial advice. Using an associate professional's weekly salary of £593.70 uplifted for non-wage labour costs, results in total administrative costs to business of £280,744 to check that 174,375 individuals have received Pension Wise guidance, and £335,846 to check that 104,625 individuals have received financial advice. HM Treasury expects it to take a negligible amount of times for businesses to check whether annuities fall above or below the threshold, and expects firms to incur immaterial familiarisation costs with the rules on checks.

This will be a qualifying regulatory provision scoring under the business impact target. Following a further submission by HM Treasury, the impact of the proposal will be scored for the purposes of the business impact target.

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## Quality of submission

Following the RPC's initial review, HM Treasury has submitted a revised IA which clarifies that the evidence on which the indicative EANDCB is based is insufficiently robust to be validated at this stage; this is because both the threshold for advice and the firms required to make the checks have not yet been specified. The resubmitted IA has been amended to explain that, at this stage, the EANDCB is indicative, as opposed to requiring validation. The RPC expects a robust analysis and EANDCB to be provided in the assessment submitted for validation. In particular, the RPC notes that the further assessment must aim to provide monetised costs where individuals choose to receive financial advice (page 11). This appears to be an area where a proportion of consumers are expected to seek financial advice as opposed to obtain the free Pension Wise advice.

Additionally, the revised IA provides further justification for some of the assumptions used in the analysis. In particular, HM Treasury explains that:

- The assumption that all annuity holders wishing to sell will do so in the first year following implementation of the secondary market is based on the expectation that there will be extremely limited interest in this market from those who have retired since April 2015, and those who retire in the future - this is because these individuals will, under wider pension reforms, have the opportunity to access their pension flexibly without needing to purchase an annuity. Additionally, HM Treasury expects that where these individuals have chosen/choose to purchase an annuity, they are unlikely subsequently to choose to sell it.
- Further engagement with industry suggests that the 30 minutes HM Treasury estimated in the IA for the advice requirement check was a considerable over-estimate of the time it would take for firms to check that advice had been received.
- Familiarisation costs are assumed to be immaterial, as a small amount of time is likely to be required for firms to familiarise themselves with the rules on checks, and fewer than 20 firms are likely to be required to carry out the checks.

These justifications appear reasonable.

## Small and micro business assessment (SaMBA)

HM Treasury expects the FCA to specify that either annuity providers, intermediaries or purchasers will be required to carry out the check. Depending on the decision by the FCA, it is possible that small and micro businesses will be required to carry out

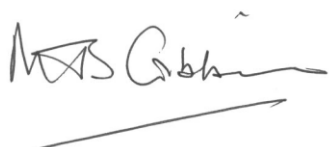
checks. No annuity providers (the most likely group to be specified) are small and micro businesses. Further HM Treasury explains that exempting small businesses from the requirement may result in some consumers not receiving advice or guidance, undermining the policy objective. The IA submitted for validation must provide an analysis of the extent to which the policy objective would be undermined by exempting small and micro businesses.

### Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£0.6 million (indicative estimate)
Business net present value	£0.6 million (indicative estimate)
Societal net present value	£0.6 million (indicative estimate)

### RPC assessment

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated <sup>1</sup>	Impact on business will be validated in a subsequent assessment following the specification of the firms responsible for checking the requirement has been met and the threshold for the advice requirement
Business Impact Target (BIT) Score <sup>1</sup>	As above
Small and micro business assessment	Sufficient



**Michael Gibbons CBE**, Chairman

<sup>1</sup> For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.