Freedom and choice in pensions
A joint response on behalf of Barclays Pension Funds Trustees Limited and Barclays Bank plc

Barclays Pension Funds Trustees Limited (the Trustee) is the trustee of the Barclays Bank UK Retirement Fund (the UKRF). Barclays Bank plc (the Bank) is the sponsoring employer. The UKRF is one of the largest occupational pension schemes in the UK with assets of over £24 billion (as at September 2013) and c250,000 members across DB, DC and hybrid sections.

The Bank and the Trustee have reviewed HM Treasury's (HMT) consultation entitled '*Freedom and choice in pensions*' and our combined response is set out below. The key points that we wish to draw to HMT's attention are:

- We both support the government's overriding objective of providing people with greater flexibility and choice in retirement. However, we are also of the opinion that DC occupational pension schemes, such as the UKRF, should not be compelled to allow income drawdown at retirement as this would impose significant additional cost and complexity. While the freedom is welcome, individual schemes and employers should be allowed to decide how to implement the flexibility, mindful of the full range of implications for their scheme and its members. Members wanting to go into drawdown would always be able to achieve this by transferring to a specialist provider.

- We recognise that with increased flexibility and choice comes the need to support members to ensure they are able to make informed decisions. However, the proposal for schemes to offer face-to-face, high quality, impartial, tailored financial guidance would place extremely onerous cost burdens on pension schemes and providers. We feel that it is critical that any guidance made available must be capable of being offered via cost effective, easily accessible and easily regulated channels – the preference being online toolkits which are already being used very successfully by UKRF members.

- If the principle of flexibility and choice is to be applied, we feel that this should be applied for all people, across all private sector pension schemes and therefore defined benefit (DB) to defined contribution (DC) transfers should not be prohibited. We do not believe that this would have a significant impact on gilt or corporate bond markets and a prohibition would effectively lock DB members into their current schemes.

- We are concerned about the timeline for implementing the significant amount of change proposed and therefore would appreciate regulations and any guidance as early as possible. We are also conscious that there are a number of practical issues that need to be addressed quickly. For example, where a member does drawdown from a variety of pension pots how will the applicable tax rate be calculated, reported etc.

Full responses to the individual questions raised in the consultation are set out in the attachment.

Signed on behalf of Barclays Bank plc

Signed on behalf of Barclays Pension Funds Trustees Limited

Attachment – Bank and Trustee response

A new tax framework for retirement (Chapter 3)

1. Should a statutory override be put in place to ensure that pension scheme rules do not prevent individuals from taking advantage of increased flexibility?

The Bank's and the Trustee's preference is for the legislation to provide a statutory power of amendment of an 'enabling' nature rather than an override which forced schemes to make changes. This would allow schemes to offer increased flexibility but for this to be implemented according to each scheme's individual circumstances. If schemes decide not to offer income drawdown this would not prejudice members because they would still be able to transfer out their benefits to an arrangement that did offer this option. An enabling power, rather than an override, would also avoid the risk of unintended circumstances which could arise if legislators failed to fully consider certain aspects of scheme design, such as the integrated nature of DB and DC elements for members within the UKRF.

3. Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?

We do not support increases to the minimum pension age which would reduce members' flexibility. This would be counter to the main aim of the government's proposals to provide increased freedom, flexibility and choice.

Members make contributions into their pension scheme on the understanding that they will be able to draw their retirement savings from a certain age. If that age gradually increases through legislation for contributions already made, members may become increasingly wary of investing in pension schemes at all. In addition, many members enter into non-pension financial commitments (e.g. mortgages) on the basis of being able to draw their retirement savings at a particular point in time and any increase to the minimum pension age could disturb those commitments.

From an employment perspective, the Bank is keen to ensure that the labour market remains as flexible as possible. It is acknowledged that people are, on average, living for longer. However, it does not follow that people are able to (or wish to) work for longer and many prefer to reduce their hours or work flexibly in their 50s. The option to flexibly access their pension savings at this time should remain available.

There are a number of UKRF members who are currently entitled to a 'protected pension age' under existing legislation. The UKRF also has members who have an entitlement to an earlier pension age as a result of a contribution paid on redundancy. We would urge the government to ensure that groups such as these are reflected in the legislation in order to ensure they retain their 'protected' status and schemes have clarity in respect of their administration.

4. Should the change in minimum pension age be applied to all pension schemes which qualify for tax relief?

As stated above, we do not support increases to the minimum pension age. However, there should be consistency between schemes. Any split of minimum pension ages between DC and DB arrangements would have administrative implications (and therefore a cost) for the UKRF. Our preference would be to have a unitary approach to this issue.

5. Should the minimum pension age be increased further, for example so that it is five years below State Pension age?

The minimum pension age should not be increased further and it would seem that any proposal to introduce this would be counter to the main aim of the government's proposals to provide increased freedom, flexibility and choice.

Supporting choice (Chapter 4)

6. **Is the prescription of standards enough to ensure the impartiality of guidance delivered by the pension provider? Should pension providers be required to outsource delivery of independent guidance to a trusted third party?**

We recognise that with increased flexibility and choice comes the need to support members to ensure they are able to make informed decisions. On this basis we support the provision of guidance to retiring members. We agree that minimum standards are necessary but compliance with minimum standards should be capable of objective (not subjective) assessment. In addition, where a scheme or provider complies with the prescribed standard, it will be critical that they are provided with a statutory safe harbour which discharges them from any responsibility for the member's ensuing decision.

A reasonable approach would be to adopt a set of prescribed minimum information standards, possibly supported by a code of practice or guidance. The minimum information standards should be subject to legislative control with the expectation that they remain largely unchanged over a reasonable period of time to provide schemes with a degree of certainty and time to embed. Standards that prescribe a broadly consistent approach would undoubtedly help schemes but also members. It would be counter to the government's objectives of informed decision making if different schemes offered different guidance – especially given that the majority of people in the private sector have scattered pension pots. We would also suggest that a de minimis limit is considered to avoid disproportionate costs for schemes of providing guidance where pension pots are small.

The proposal to make the guidance guarantee available on a face-to-face basis will be challenging to implement and potentially costly. Such guidance could be open to manipulation and would be difficult to regulate on a consistent application of any guidance standards, particularly in a cost-constrained environment. 'Face-to-face' could be interpreted to include video calls or group seminars; this would lower costs but these could still be too high for many arrangements. We believe many members would prefer an online or paper-based approach that they can revisit and refer back to as many times as they want through their retirement journey, rather than one low-cost guidance session delivered to a price. A requirement for guidance to be delivered 'face-to-face' would unnecessarily restrict the provision of effective and efficient means of delivery.

We do nevertheless believe that the Budget changes present a real opportunity for the UK to embrace developments in technology and take a lead globally in the delivery of mass market financial education. Any solution needs to be adequately and sustainably funded with a focus on a consistency and avoiding duplication and waste.

As with many UK pension schemes, the UKRF already has a policy of communicating with members via online channels (where this is possible) and has a well established website through which pension information is easily accessible. This site is popular with members because it allows them to view information that is relevant to them when it is convenient for them. We would propose that this is the best channel to provide information to our members about retirement options and would appreciate flexibility in the legislation to ensure that this is permissible.

7. **Should there be any difference between the requirements to offer guidance placed on contract-based pension providers and trust-based pension schemes?**

There should be consistency of standards between the requirement to offer guidance for both contract based and trust based schemes. Schemes and providers should also be able to provide guidance over and above the minimum information standards, if they wish.

8. **What more can be done to ensure that guidance is available at key decision points during retirement?**

There are a number of key decision points for members in respect of their retirement. Following implementation of the government's proposed new regime to afford greater flexibility and choice, there will be new ‘post retirement’ decision points and therefore value in ensuring that members continue to consider guidance setting out their options. In addition, for members to improve the chances of achieving good outcomes from their pension savings, it will be important for them to have made well-informed decisions throughout their working lives. This suggests that guidance would ideally be made available on a more sustained basis ‘pre retirement’ as well. The recurring nature of these decision points strongly supports the provision of online and/or written guidance – which can be consulted by members as and when they need it. In addition to basic information about benefits, UKRF members have access to an online planner and a ‘Your Pension Journey’ website to help them understand their pension needs and options. Our experience with these online tools is that they are well-received and appreciated.

Any legislation in this area should make it clear that where a pension scheme’s responsibility to a member is extinguished by the payment out of the scheme of the retirement savings account (whether by way of cash/annuity/drawdown product) there should be no ongoing requirement for the scheme to provide information or guidance to the former member. Any future requirement should be imposed on the scheme to which the former member has transferred his or her benefit.

An alternative model would be for the government to appoint a number of approved guidance carriers to whom pension schemes and providers can confidently outsource their responsibility. We expect such experts to emerge in any event however a centralised funding model would avoid duplication of effort across the multiple schemes most members will have been part of. This would ensure that the delivery, impartiality and consistency of guidance could be controlled. The costs for setting these up and the delivery of the free guidance could be recovered from a levy on product providers and schemes who pay for discharging their liability. Any additional pre or post retirement guidance could be charged to members according to their specific requirements.

Defined benefit schemes (Chapter 5)

9. **Should the government continue to allow private sector defined benefit to defined contribution transfers and if so, in which circumstances?**

10. **How should the government assess the risks associated with allowing private sector defined benefit schemes to transfer to defined contribution under the proposed tax system?**

The government should continue to allow private sector DB to DC transfers, as is currently the case. The alternative, partially constrained approaches mentioned in the consultation document are not practical. Continuing to allow private sector DB transfers is consistent with the government’s objective of freedom, flexibility and choice in pensions.

Private sector DB to DB transfers have essentially ceased, because most DB schemes do not accept transfers of liabilities from another scheme. Removing the option to transfer to a DC scheme would result in members being locked into legacy DB schemes even if the member no longer wished to remain a member of that scheme. A member might for example have a concern about the security of the DB scheme, and in that instance should be allowed to request a transfer rather than be locked in.

The government is concerned about a mass shift from DB to DC. However this fails to recognise that DB members highly value their DB pension and the huge majority are unlikely to wish to exchange the security that it affords without very careful consideration – in particular they are unlikely to take a transfer until the point of retirement, deferring their decision for as long as possible. Even if transfers pre-retirement do increase, schemes such as the UKRF are invested in a diverse range of return seeking assets backing these non-pensioner members. For many schemes, pre-retirement transfers would lead to exits from equity markets (and corresponding entry into the same markets within a DC or drawdown scheme), as much as they would from bond markets.

Transfers at retirement could, conceivably, increase, but this will most likely be a steady flow over the next few decades, rather than a mass transfer at one time. We believe the majority of the UKRF’s DB members would wish to continue to draw their benefits from the DB scheme, as they value the benefits and protections it provides. Although the government's announcements in respect of increased flexibility and choice were only made in March 2014, it could be argued that if DB members were likely to rush out of DB and into DC then this would have been experienced (at least partially) already. The UKRF's experience since the Budget announcement has been of a small spike in transfer quotations in the two weeks following, before reverting to their previous level. There has not been an increase in DB members deciding to transfer out.

As part of their risk management, most schemes are looking to de-risk when it is affordable to do so. Initially this takes the form of selling return seeking assets in favour of long-dated bonds and gilts, and then ultimately buying annuities (backed by similar bonds and gilts). Any reduction in demand due to DB to DC transfers would, in our view, be considerably offset by the huge volume of money waiting for the right time to de-risk. It should also be noted that many flexible drawdown products will themselves be partially or wholly invested in gilts and corporate bonds, albeit at shorter durations.

We do acknowledge the risk of a market over-reaction should HMT decide not to implement a private sector transfer ban, if this is announced. We would strongly urge HMT to consider how best to announce such a decision – for example by explaining carefully the impact it is expected to have on transfers, the types of assets schemes are likely to sell, and the pent-up demand for long-dated corporate bonds and gilts outlined above.

Finally, it may be appropriate for the government to revisit certain aspects of the current transfer arrangements. For example the statutory entitlement to a transfer could be extended to normal retirement date (rather than expiring a year earlier) and it may be appropriate to introduce minimum information requirements or guidance prior to a transfer proceeding.

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