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# Sipps roundtable

## Sipps and retirement income



**FT** Business  
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# Sipps roundtable: the changing role of annuities



From left: William Burrows, managing director, William Burrows Annuities; Robin Ellison, non-executive chairman, London & Colonial; Tom McPhail, head of pensions research, Hargreaves Lansdown; Gill Cardy, principal, Professional Partnerships; Tony Marsh, financial adviser, RH Asset Managers; Aston Goodey, head of business development, annuities, Prudential; Ian Porter, associate director, Heartwood Wealth Management; John Moret, director of sales and marketing, Suffolk Life; Matthew Craig, head of editorial, online pensions projects, FT Business.

**Matthew Craig, head of editorial, online pensions projects, FT Business:** What are the biggest changes in the annuity market since A-day?

**Aston Goodey, head of business development, annuities, Prudential:** The biggest changes we've seen have been in terms of the volume of business that has come through. It is significant post A-day, so we think a lot of people were holding off. I'm not sure whether it's particularly to do with A-day, but certainly asset-backed annuities have started coming into their own.

**Tony Marsh, financial adviser, RH Asset Management:** We're not big users of annuities. In the lead up to A-day, we foresaw the concerns that have now come to light regarding ASP (alternatively secured pension), so we actively recommended the open annuity provided by London & Colonial. We don't anticipate in the short term we will have the 'age 75' problem, because so many of our clients that were heading that way have now gone to the open annuity.

**Robin Ellison, non-executive chairman, London & Colonial:** The thing we've been spending a lot of time on is coping with the changes in revenue and treasury policy that seem to have emerged since just before A-day

and after A-day and the lack of clarity from the Treasury and Revenue in what they're trying to achieve within their annuity and retirement policies. For people who are trying to design products to meet client needs, it's been a bit of a struggle. It is disappointing, whether you believe in ASPs or you don't believe in them, or you believe in annuity systems or you don't believe in them – what would be comforting is not so much stability, but clarity of objective from the Revenue's point of view. It's clear that a lot of its policies are being driven by understandable but slightly hyperbolic comments in the press about some of the potential abuses that some of these opportunities might produce, without any evidence of that. By and large the Revenue is just sitting tight, and hoping it will go away. If it doesn't go away, they'll try and change things. So we have a non-coherent, non-holistic, non-strategic annuity and pensions policy, around which it's quite tricky to develop products that people are going to buy. One of the things that's emerging out of this is a slight freezing of the market while people work out what it is the revenue want to do.

**William Burrows, managing director, William Burrows Annuities:** For people with smaller pension funds, not a lot has changed apart from the access to tax-free cash, but what

I call 'middle Britain' and the high net worth clients are certainly more demanding now in the advice that they're looking for, and there are more solutions for them. I guess that's code for saying that I think one of the big changes for A-day is it has put unsecured pensions into play for more people. It is quite interesting to look at the occupational market where it's now much easier to transfer out of a company money purchase scheme and take advantage of draw-down.

## Use of USP, ASP and drawdown

**John Moret, director of sales and marketing, Suffolk Life:** We've seen an increase in take up of USP (unsecured pension, or drawdown before A-day), with the removal of the minimum income requirement. I would say a third of those exercising the options are actually just taking their cash and leaving everything else intact. That's a material change. Certainly some of the complexities around the way USP and ASP work obviously added to our workload. We've also had a handful of people doing ASP and at the moment we'd be quite happy if it remains a handful.

**Ian Porter, associate director, Heartwood Wealth Management:** Unusually for a wealth management and asset management business, we're actually quite pro annuities. Annuities do meet a need as far as clients are concerned. I think the most interesting development for our clients has been the introduction of value protection and the fact the cost of value protection, in some instances we have found, is less than buying a five-year guarantee on some of these annuities. It is actually really quite attractive. For those who opt initially for USP, when they go to ASP, they will realise there is a cap on the maximum level of income they can take, and that may be significantly lower than the level of income they are used to taking. The fact you can still derive benefit, post death, from a value-protected annuity, means that at age 75, annuity purchase will still be considered. I think the outlook for annuities is relatively positive.

**Tom McPhail, head of pensions research, Hargreaves Lansdown:** We've set up several hundred drawdown arrangements since A-day

and over half have been just tax-free cash only, and no income. People are adopting more flexible strategies with how they draw their income in retirement, trying to offset the different risks, the inflation, the investment return, longevity risks. That's going to be one of the most interesting areas of product development. If you like, it's the old conventional annuity at one end and an unsecured pension at the other. It's that middle ground in between them and we're already starting to see some introductions – Living Time came out recently with their variation on it. I don't disagree that annuities are good value for money, but I think people are increasingly looking for a little bit more.

**Gill Cardy, principal, Professional Partnerships:** The majority of my clients are risk-averse in retirement and on that basis, annuities do represent good value for money, being a guaranteed income for life. On trivial commutation [for funds under £15,000] I have a client with a pension fund that's £15,300. I am trying to work out whether he can take a triviality lump sum now, by enforcing a market value reduction [on a with-profits funds] to fit the triviality limit. Or should he wait until next year because there's a slightly higher triviality limit and hope the fund doesn't grow too much in the meantime? Because I'm supposed to discuss state benefits with all of my clients now, actually he should take the cash and blow it all, because government policy dictates there is absolutely no benefit whatsoever to us having done any work on this, whether it's income or cash. He loses out either way.

**Ellison:** The market that we're looking at is not really worried about the state side of things, although it is difficult to advise on state benefits. There are three current state pension systems, with the prospect of a fourth coming on in the spring, of which nobody has the details yet.

In the absence of a coherent state pension system, it's really hard to advise on what private individuals should do about their private arrangements. I'm not on the IFA side of things, but if I were an IFA I'd be screaming blue murder. It must be really hard to give sensible, pragmatic advice at the lower end, even at the higher end it's not easy. The whole idea of rev-



**Burrows:** "It is quite interesting to look at the occupational market where it's now much easier to transfer out of a company money purchase scheme and take advantage of drawdown"



**Porter:** "Logically, you shouldn't ignore any opportunity to provide best advice to your clients and if it's in legislation, it's there, it should be utilised and you can take the example of ASP"

enue simplification, which most of the industry welcomed, was an opportunity to get rid of this nightmare of complexity. But the revenue seems to be obsessed with slight leakage at the edges. If they allowed it, it would just simplify life for all of us and cut the costs for everybody and make people save more, because they'd understand what's going on. At the moment, we haven't reached that kind of simplification. People are uncomfortable about putting money into pensions, because they struggle with it, even now in the new system.

**McPhail:** Tax-free cash recycling is a classic example of that. There was no abuse of the system to start with, people were putting money into a pension within the contribution limit and then taking it out again. There was nothing wrong, and yet they perceived it was unacceptable. They added layers of complexity and extra paperwork to deal with that and it is really infuriating.

**Porter:** Logically, you shouldn't ignore any opportunity to provide best advice to your clients and if it's in legislation, it's there, it should be utilised and you can take the example of ASP. Then if somebody turns around to you down the line and says, 'you're not a member of the Plymouth Brethren, you've abused this opportunity to not purchase an annuity, we'll force you to buy an annuity now', well, that's what would have happened anyway. From what I understand, Gordon Brown is a proponent of annuitisation. I can understand that. It's a case that I've given you some tax relief on your income while you've earned it, now I want my tax on this stream of income now. But in reality, there is probably a sub plot, which is that they don't want these rules to be

abused by the rich few.

### ASP a cause of confusion?

**McPhail:** Here's the irony – they actually make more money out of ASP than they do out of an annuity. We've looked at a number of different scenarios, and unless the individual is giving the money to charity, which is a provision that they wrote into the rules, then the government makes more money out of the ASP than they do out of an annuity. It's astonishing to think of Balls' statement, that he didn't want a wealthy minority to benefit from these rules, but it was okay for a religious minority – this is theocratic thinking, this is really dangerous stuff. The fact they wrote the legislation and then tried to steer the legislation in a different direction by giving this verbal guidance is a really unacceptable way to run a country.

**Moret:** But government – and not just this government – has been confused over this whole area of annuitisation going back 10-15 years. In the 1990s, there was a definition of what constituted an annuity. It had to be safe, stable, regular and for life. I would suggest that a high proportion of annuities today wouldn't actually satisfy that criteria. There is also internal conflict between Treasury on the one hand and the DWP (Department for Work and Pensions) on the other. I think in many ways, the DWP is as much concerned about annuities as treasury, but its perspective is very, very different. It's not surprising we've still got the muddle we appear to have right now. It's confused thinking.

**Burrows:** Clearly the 'age 75' problem needs to be resolved. I emailed Ed Balls a few months ago and only got a letter back this

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week. I had a cryptic reply, which said something along the lines of the government has always thought ASP would be taken up by people who have got a religious aversion to annuities. We shouldn't let the 75-year rule detract from what is the main issue for most people, and it's the trade-off between income and capital preservation and flexibility. One of the issues that I see in the retirement market is a polarisation between those people that promote annuities, and those at the other extreme that say you shouldn't buy an annuity ever and should use the unsecured. The most interesting development at the moment is what I term the third way, and that's a phrase I use to include companies like The Hartford and MetLife who are looking at introducing some guaranteed funds under drawdown with the idea of making drawdown look more like an annuity. It's all pointing towards drawdown becoming a more viable option for more people.

### The role and delivery of advice

**Aston Goodey:** Is the advice market moving to becoming fee-based? That is where I think the market is going at the moment, so ultimately where is this going to lead everyone in the annuity world? I think the other thing is in terms of the market: Is there a move towards specialist firms? Certainly big organisations (intermediaries) are now looking to centralise the annuity function, where they can operate more cost effectively.

## "Someone started selling a mobile phone that does nothing but make phone calls. Apparently it's going down extremely well with the more mature segment of the market"

**Tom McPhail:** Barriers to entry in the market in terms of technology and technical expertise and so on are such that yes, firms who specialise in this area I think are rewarded for doing it and, you know, we have now a number of businesses that have created a space where they are retirement specialists. But there are always going to be adviser GPs.

**Gill Cardy:** The issue is amalgamating all of the circumstances somebody finds themselves in. They don't just have a pension that's here, and an investment that's over there, and a house that's over there, and children kind of fitting in somewhere, that might be a bit to do with investments or a bit to do with the house or maybe a bit to do with the pension. It's an



Cardy: "How intellectually bankrupt is that as a question to have on mainstream television? A balanced managed fund is not an alternative to a pension"

overall strategy. I can't just say 'annuities, they're dead good' or 'if you want to look at equity release go over there and talk to Key Solutions'. All I'm doing is effectively acting as some sort of glorified telephone directory. Instead, you're making it work together so that tax-free income over here works with no income from the USP, which is topped up with a nice bit of equity release, which is capital drawdown and isn't income. How great is that? Work all of that out, test the numbers and use the Monte Carlo simulation to work out whether the client is going to be happy, or run out of money at the end of the day. That's the way I think that people want to do it. The challenge is to deliver it in a way so that people of more modest means actually find an answer that draws all of it together in a way that makes sense.

**Ian Porter:** Gill's absolutely spot on, this is very much the way we're trying to approach this. We don't give pension advice, we give

retirement advice. Retirement is an aspiration and a goal, a pension isn't. Planning for retirement is about accruing sufficient cash, assets and income so you can fund the lifestyle you ideally want in retirement. Obviously a lot of people fall short of that. Somebody could have, say, a four-way split of their assets in retirement, of which the pension fund represents one-quarter by value. Because they have a desire to avoid inheritance tax, it may actually be more favourable to spend or dispose of non-pension assets in their taxable estate and leave their pension fund intact because they're under 75. You have to make sure that not only do you have sufficient assets to generate the income, but you generate the income in the most tax-



Ellison: "In the absence of a coherent state pension system, it's really hard to advise on what private individuals should do about their private arrangements"

efficient way. That's the art.

**William Burrows:** I don't disagree with what you're saying, but I see it from a slightly different angle and I call this my breakfast table scenario. I see people and they've got the *Sunday Times* spread out on the table. In the top corner they've got Hargreaves ringed out for their self-invested personal pension (Sipp) and they've got somebody else for annuities. There is a new breed of investor who wants to make decisions themselves and to be empowered, so they're looking for the best breed of advisers. They're moving away from the holistic approach from one IFA to thinking they can do it themselves with some expertise drawn in. I'm not saying there's a right or wrong answer, but that's something I see happening.

**Cardy:** The tragedy is that in real life they wouldn't seek medical advice on that basis. As somebody did quite eloquently point out to me, it is only your GP who has access to the full picture. Whilst I accept there is a place for specialists, I think there is a growing breed of people who will begin to see that it is all about money to meet objectives. It's not about jam jars with identifiable pots.

**Ellison:** Most people have messy lives. Well I do, anyway. But I don't think as I should, I don't think logically and sensibly in balance. My personal financial life is a complete mess. I sit down and think, one day I'm going to sort it out. People don't – their life changes, their relationship changes, all sorts of things are changing all the time. Most people don't. Most people live complicated, messy, curious lives. They suddenly think, 'well, I better go and sort a Sipp out or an annuity', and they go and see somebody.

**McPhail:** Which is why we've got a bloody junk mail industry.

**Cardy:** Or you have advertising, like Norwich Union's, that says 'oh, I'm so confused, should I have a pension or should I be in a balanced managed fund?' What sort of choice is that? How intellectually bankrupt is that as a question to have on mainstream television? A



Goodey: "There are probably different reasons for the different products, but how many consumers actually know that all these products exist in the marketplace?"

balanced managed fund is not an alternative to a pension.

**Porter:** For the holistic adviser, what you're looking for is fewer, more intense relationships, where people actually recognise the value of retaining the services of an adviser on an annual basis, to guide them through the maze and pitfalls of legislation, year after year. I don't think the advice industry historically has been particularly good about creating a perception of long-term value to the client, and then actually delivering it. Things are changing.

**Burrows:** We mustn't underestimate the antipathy the man on the street has for financial advice. For a lot of people, it's actually been a bad experience.

**Marsh:** One of the things that concerns us is that even if you do get good advice and sort your jam jars out, what actually goes into those jam jars? I recently saw a statistic that in the last 10 years, total pension income being paid has halved, partly because of poor investment performance, but also because annuity rates have come down. What's in those jam jars is really going to make a big difference to people's lives when they retire.

**Moret:** Looking 10 years out, 90%-95% of people in schemes are going to be in defined contribution (DC) schemes. That's an awful lot of people. There aren't enough financial advisers anywhere close to that number to provide advice. Yes, there'll be 10%, 15%, 20%, 25% of the population that will continue to need advice, but for the vast majority, it's going down the route of commodity purchase and that's worrying. It's also the area of huge opportunity for the life companies, based on some of Callum McCarthy's recent comments, with some serious questions about where the life companies fit in the bigger world going forward. Innovation in the provision of annuities and delivery of that sort of advice process must be a massive opportunity for them.

### Demand vs choice

**Burrows:** I'd like to ask why has there been

almost zero innovation in annuities?

**Ellison:** It's hard to break through regulatory and Revenue barriers. Every time you think of something, there's a reason why you can't do it. I think that will change, because you will be able to arbitrage regulatory barriers fairly shortly, if you can't do it already. Because you have to get approval for everything now, most of the major players have really struggled to invent things that people want because of the technical barriers. It's not for want of trying.

**Goodey:** Ultimately, the client can get what he needs from the existing products. It's probably about mixing and matching, ie utilising drawdown, with profits, etc. It's interesting because there isn't something they're all crying out for at retirement that isn't already given in an annuity or a drawdown. I think they're pretty well catered for. For the average person in retirement, the annuity propositions that exist and the unsecured that exist at the moment, are good. They offer an income for life and if they want an investment link they can have it. The choices are there, but it is also about making those choices available and aware to those clients. Going back to John's point in terms of annuities becoming commoditised, it is very easy to say the best rate in the market is L&G today, but actually it's not about getting the best rate, it's about getting the best products. People are missing out on all these other products that are out there. London Colonial's product is potentially a great product and I don't know how many they sold, but it's small. Our FLA (Flexible Lifetime Annuity) is small. Canada Life's AGA (Annuity Growth Account) is very, very small. There are probably different reasons for the different products, but how many consumers actually know that all these products exist in the marketplace?

**Ellison:** Isn't choice a problem? One of the things we're looking at in relation to the design of the National Pensions Savings Scheme (NPSS) is actually most people faced with too much choice just freeze. It would be easier for them to sell stuff if there wasn't any choice.

**McPhail:** Someone started selling a mobile phone that does nothing but make phone calls. Apparently it's going down extremely well with the more mature segment of the market.

**Ellison:** People like me – I've got one of those.

**McPhail:** I believe the NPSS has got to pass the McDonalds test. If it's any more complicated than a McDonalds menu, it's too complicated. All they need to know is one makes you fat and one will make you slightly fatter. That's



Marsh: "I recently saw a statistic that in the last 10 years, total pension income being paid has halved, partly because of poor investment performance"

it, that's all you need to know.

**Porter:** There's also another factor that tends to stimulate innovation, particularly in the annuity market – if the flow of business towards annuities dries up, insurance companies will innovate. They'll have to, because that's how they attract business. In 2004 according to the ABI (Association of British Insurers), there was something like £7.5 billion of cash inflow into annuity purchase from pension funds. That is not an inconsiderable amount of money. There's no sign that's drying up.

**Burrows:** There's another way of looking at that. Watson Wyatt did some work with the ABI, projecting the demand for annuities and looking at supply. If you're playing the value for money card, if there is just not sufficient supply of fixed interest rate stock, and there's not an appetite to take the longevity risk, so the value for money from a conventional annuity where the insurance company takes all the risk is going to diminish. So how does the man in the street get better value from his pension pot? The answer is by sharing some of the risk with a provider in the expectation of getting a higher return. That's the big debate that I'm not seeing come out.

**Ellison:** I'm not sure that's true, because if you look at what's going on with the arrival of Paternoster and other firms chasing, as it were, dead pension funds, they may or may not find a market there. There's no doubt that they've got commitments of capital. Goldman Sachs recently announced they're raising money – everybody has raised some money fit to bust. My guess is that because they're not going to pick up as much pension business as they possibly think they are, there'll be huge surplus capacity in the annuity market.

**Cardy:** But if the average annuity purchase is still £25,000, then at the end of the day, do you want to save the government's benefit budget more or less money by having had a better or worse pension? Because the £25,000 – I've just worked it out for my client – says all he is

doing is saving the government some pension tax credit.

**Ellison:** Are these numbers right, £25,000? The average annuity is about £20,000?

**McPhail:** The number is actually probably about £28,000, it's certainly in that ballpark.

**Ellison:** Do people have one pot or do they have a few pots?

**Goodey:** More than one generally.

**Ellison:** So the numbers aren't maybe quite as modest.

**Moret:** The average was 1.5 to two times the minimum. You're still looking at modest amounts in terms of what it would secure.

**Burrows:** Going back to what Gill just said, if you take the man on the street, and say: 'you've got a pension fund, what are you trying to do?' the client's not very good at articulating it. But they might say, 'I want to have a sustainable income for the rest of my life, you know, and the rest of my wife's life, without taking an undue risk'. Now what is that? That's not a level annuity, because level annuities are not sustainable in real terms. One of the things I'm finding is a lot of people are coming to me with quite modest funds and actually going into drawdown through some of the online Sipp providers. They're actually finding they can have a low-cost Sipp and can choose the investment, and to them, it's actually a good alternative to an annuity.

**Porter:** What's their motivation for that?

**Burrows:** It's the flexibility. It's wanting to be in control of their pension funds.

**Porter:** What sort of pension funds?

**Burrows:** Anything from £50,000 up to whatever level.

**Porter:** If someone's got, say £50,000 or £100,000 in their pension fund, is USP really an advisable option for them?

**Burrows:** Why not?

### The role of the adviser

**Porter:** I'm just trying to clarify a point. It's part driven by the size of the pension but it's also driven by whether somebody is pension-dependent or perhaps, in the cases that Gill and I were alluding to, where our clients tend to be not pension-dependent and if you're not pen-



**Moret:** "Innovation in the provision of annuities and delivering of that sort of advice process must be a massive opportunity for life companies"

sion dependent, you have a whole range of freedoms and flexibilities that you can use within USP. Quite frankly, if someone came to me with funds at that level, was dependent on that capital for their future financial security and wanted to go into USP, I would be reluctant to advise them to do it.

**Marsh:** Obviously it depends on their overall wealth. Another interesting point is that on the other side of that conventional annuity is long-dated, index-linked gilt. We all know what's going on in the long-dated gilt market, where final salary pension schemes are trying to match assets and liabilities – pushing annuity rates lower. We have an inverted yield curve, so short-term interest rates are higher than long-term interest rates, which either forecasts serious recession ahead, or else it's an anomaly created by the huge demand for long-dated gilts, even 50-year gilts. That situation is likely to continue, driving the conventional annuities yet lower. I think that could push people towards investment-linked annuities.

**Porter:** One of the old motivations for entering what was drawdown and is now USP for a period of time was deferring annuity purchase. That's just frankly nonsense. You get the same money's worth out of an annuity whether you buy 65 or 75. Yes, you might have a lower start point at 65, but you get 10 years more income. You shouldn't ever be using USP as an annuity deferral vehicle. There should be a strong motivation behind it in terms of flexibility to manage taxable income. USP is not a deferral vehicle for annuity purchase.

**Burrows:** It is, but historically it hasn't worked. I've got an interesting case at the moment with twins who are 75 and both of

them are saying, without being prompted, that running drawdown to 75, (annuity deferral), really hasn't been to their advantage. But there are some people that want to do it. My premise is that it's not for us necessarily to tell people what to do, it's up to us to explain the options and then to enable them to make a decision that is right for them.

**Porter:** It's absolutely up to us to tell people what to do. You can make people feel good about their own decisions if you wish, but at the end of the day, as you said yourself, you will carry the can for the advice that goes on that piece of paper. In the litigious world in which we live, if with hindsight they decide that they didn't receive good advice, they will come back to you.

**Burrows:** The truth is, if someone's got a pot of money, say £250,000, I can't say to them 'you must buy an annuity or you must go with drawdown', because there are so many factors, half are financial and half are subjective.

**Cardy:** That's precisely why, despite the intellectual logic of finding these little niche specialist providers, it doesn't work, because in the end there are so many factors at play here. You come back to paralysis of choice, which is probably why everybody ends up just buying the annuity that's on the piece of paper. The providers say you have options one to six, with some more options if you'd like to give us a call and the client's going to say 'oh sod it, where do I sign?'

**Goodey:** I think you said a third or a half or people going into USP at the moment are taking tax-free cash and no income.

**McPhail:** That's been our experience, yes.

**Goodey:** Is that advised, or is that them saying I need a new car or I need to build an extension or I need to do whatever it is?

**Moret:** In our case, the majority would be advised.

**McPhail:** In ours, the reverse, the majority would be non-advised.

**Burrows:** I think the truth is the trigger point is actually that they want the cash. They want the cash, they don't want the income. That's why.

**Goodey:** The numbers seem high and it's no

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different to our income drawdown contract at the moment. I have reviewed the figures and I think about 41% were taking the tax-free cash and you know, leaving it there. It was a lot higher than I thought it would be. The ABI stats for drawdown in Q2 this year there is actually more drawdown. That's quite a significant shift.

**Burrows:** But when is drawdown draw-down? To my mind, if you're taking the tax-free cash and you're not taking the income, it's actually just a Sipp, isn't it?

**McPhail:** It seemed to me like a no-brainer from quite a long way out, that there would be people who would want to get access to that money.

**Goodey:** I agree that people would want to – whether it would be right for them to do that, this would be the question.

**Marsh:** It depends on their overall circumstances and what they're doing with the money. If they're paying their mortgage off, then that's probably a good thing. If they're buying a Porsche, that may not be so prudent.

**Goodey:** It is difficult, because if they want the Porsche, to them it's right. But from a financial perspective, will they look back in years to come and think, 'I've had my year in the car or I've had my cruise around the Mediterranean and where does that leave me now – in my retirement?'

**Porter:** The perception that people take the entire tax-free cash sum on day one is at the higher values of pension fund, a misconception. For most of our clients, retirement isn't an on/off switch. They'll have had a successful city career, followed by some sort of golden parachute, consulting work, charity work, etc, and their income declines over a period of two to five years. They may also be selling a business where they have significant capital gains they've got to realise. There might be a sale of the business with loan notes which they want to exercise over a period of time. The last thing they want is a taxable income that pushes them into the 40% tax bracket. That's the attraction of being able to get hold of tax-free cash as income, turning the tap off and on as you want, but having no compunction to have to draw a taxable income.

**Marsh:** That can also be used with offshore bonds, driving one's income down to zero in the year of encashment.

**Porter:** Exactly. This is holistic planning – you've got to understand the tax side of this as well, not just the products, not just the legislation. You've got to understand everything



McPhail: "That they wrote the legislation and then tried to steer the legislation in a different direction by giving this verbal guidance is a really unacceptable way to run a country"

about this client and what they're expecting from their retirement plan and then dovetail everything you know.

### The future role of government

**McPhail:** I'm interested in people's opinions on whether they think the political legislative and regulatory environment is going to become more or less benign for this kind of work going forwards. Are they going to start listening? Or are we just going to keep banging our head against the wall?

**Ellison:** I think its suddenly realised they may have done more harm than good and the DWP has certainly got a deregulatory team. Whether it'll do anything is another matter, but they're thinking about it. I'm not saying it's going to change overnight, but if we keep the pressure on, all of us in the industry and the press, and keep batting on about it, eventually the reverberations do get into the corridors of power. I'm reasonably hopeful that all this, coupled with international competition – which is now becoming increasingly available through the European Union deregulatory framework – means we will see a much more benign system in the next five years.

**Goodey:** Certainly working with them, in terms of trying to remove the value protected ceases at 75 and have the tax charge banded to reflect those on lower tax brackets in terms of the accumulation phase. There seems to be some evidence that they're willing to listen. We just have to keep doing what we're doing.

**Marsh:** I would agree with Tom about Ed Balls's comment that a large part of it is to do with a drop in the tax take. I don't believe that either. ASPs are potentially going to produce a lot more revenue, so what are the objections?

**McPhail:** I think I can answer that one very briefly – on the one hand you've got a sort of dogmatic philosophical view that annuities are best. You've also got a government that likes to think of themselves as tolerant to all these minorities and people with religious beliefs, and in the form of the Plymouth Brethren, the

two kind of collided, so they came up with this fudge which was that we'll write the ASP into legislation but we don't want anyone to use it unless they're the right kind of people.

**Ellison:** There is a policy issue between the taxation of pensions and the taxation of savings. The reason the tax neutrality is applied to pensions is because the deal is that if you want to put money into a pension scheme, you buy an annuity. It is annuitised at the end, because it reflects what happens in public sector pension systems, where there isn't cash in the civil service pension scheme, there is a stream of income on retirement until death. All that private pensions are supposed to do is reflect what the government gives to its own circle. I think the philosophical divide between savings and pensions needs to continue. I'm not anti-government requirements, but what I think all of us around the table are very critical of, is a lack of coherence in explaining what their policy is and applying it in a consistent, pragmatic and proportionate manner. They don't do that.

**Burrows:** Do you think the industry has missed a trick by not helping the government understand how you could have drawdown past 75 but still stand up to the philosophy of that income?

**Ellison:** The industry did a deal and it's understandable. That in exchange for burning 1,300 pages of tax rules which we used to have, we accepted a £1.5 million cap to stop fat cats exploiting the system. We got the £1.5 million cap and now we have 3,600 pages of rules. We and lots of other people are busy fighting to try and get back to the original way, which was a simple system in exchange for the cap. What is the point of having a complicated system and the cap of £1.5 million?

**McPhail:** Fast forward 12 months. Gordon Brown is prime minister, Ed Balls is chancellor. Is it getting better or worse at that point?

**Ellison:** I think we have a temporary hiatus.

**Burrows:** It will get worse before it gets better.

**Ellison:** These things don't go in straight lines, but I think longer term, what's important for us is not necessarily what the politicians understand, but what the senior civil service understand. There are gentle signs of senior civil servants beginning to understand the mechanics of this.

*If you would like to respond to any of the subjects covered in this roundtable, please send your comments by email to [pensions.management@ft.com](mailto:pensions.management@ft.com)*