Consultation response: Freedom and choice in pensions

June 2014

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About Royal London

Founded in 1861, initially as a friendly society, Royal London became a mutual life insurance company in 1908.

Royal London is the UK's largest mutual life and pensions company, with funds under management of £73.6 billion. Figures quoted are as at 31 December 2013.

The Royal London Group's specialist businesses provide pensions, protection and investment products. Products are primarily distributed through intermediaries although Royal London has recently launched a Consumer division offering products direct to the consumer. The other specialist businesses are:

Scottish Life
Pensions: both individual and group

Royal London Asset Management (RLAM)
Investment management

Bright Grey
Protection products [UK]

Scottish Provident
Protection products [UK]

Caledonian Life
Protection products [RoI]

Ascentric / IFDL
Wrap Platform

Royal London Financial Planner
Online financial planning service for consumers

Royal London (CIS) Limited
Co-operative Insurance Society (CIS) became part of Royal London on 31 July 2013 following the purchase of The Co-operative Banking Group's life insurance and asset management businesses (CIS and TCAM)

The Royal London Group key figures

Total funds under management of £73.6 billion.

Group businesses serve over 5.3 million customers and employ 2,900 people.

Over 2.1 million with-profits customers

With-profits fund of around £32.6 billion

Main offices are in the City of London, Edinburgh, Wilmslow in Cheshire,Glasgow, Reading, Dublin and Bath.

Figures quoted are as at 31 December 2013

Introduction

Royal London is committed to working with Government to make sure our customers get the best outcomes at retirement. The policy initiatives announced in the Budget have the potential to better reflect the changing needs of customers in a rapidly changing retirement phase of their life. Alongside other key policy initiatives such as Auto Enrolment and the RDR, these represent a step change in the seriousness with which Government is addressing the confidence and commitment customers have in long term savings.

We have approached our response to this consultation with a positive agenda to make it happen. We have a number of key areas of concern – both where we think there is a danger of unintended consequences and additional follow-up actions we believe are necessary to deliver the policy objective.

We welcome the increased flexibility the Budget reforms will bring but with this will come an increase in choice and complexity as customers attempt to understand their options and navigate the market. Wealthier customers will typically be well supported by advisers and will find it relatively straightforward to find satisfactory routes to provide for their retirement income needs.

But there is a serious risk that mass market customers who have accrued healthy or even modest levels of retirement savings will be most at risk. There is a real danger that poor decisions will be made and that we end up with a significantly under-provided population of retired customers who have converted their pension savings to cash. Equally, there could be a significant number of customers invested in products with high levels of charge, whether that be product, platform, investment or advice charges.

In this environment there is a tendency for regulators to focus on product or input based regulation. We believe that there needs to be a much stronger focus on principle based regulation and outcomes based measures of success. The industry will respond to this new market with innovation and endeavour but the emphasis must be on the suitability and robustness of the outcomes for different customer segments.

We believe that the Guidance Guarantee has a critical role to play in helping customers understand and navigate the new market. A significant part of our response to this consultation focuses on the Guidance Guarantee – what it is and what the outcome based measures of success should be. We are strongly supportive of the need to develop a Guidance service that is freely available to all customers, delivered independently and impartial from any provider or adviser firm.

Engaging with customers in the right way at the right time is critical – particularly as they approach retirement but clearly this can only be part of a much broader engagement strategy run by providers and advisers. We would encourage Government to consider earlier intervention (at say 50) to emphasise the importance savings during the final phase of working life and to introduce the availability of the Guidance service. It is also important to recognise that for many customers Guidance will be needed for an extended period once in retirement.

Although the Guidance Guarantee will help customers understand their options and the range of potentially suitable decisions, it will not be a substitute for advice. Indeed, we believe that the Guidance will lead to a strong increase in customer demand for advice.

Currently the cost and complexity of offering advice in this area makes it too expensive for many customers. There is a real need for FCA to help the industry simplify the current advice model to enable advisers to provide robust, regulated advice to customers at a lower cost with a reduced liability risk.

One other vitally important element to the current debate is the tax framework for long term savings. We have not focused on the tax framework in this response as we understand that this is being addressed as a parallel work stream. There has been much media and political rhetoric on this issue, much of it poorly informed. We believe that clarity and stability is needed to support the pension as the primary vehicle for incentivised retirement savings in the UK.

Key points on the 'Guidance Guarantee'

- The key priority now is to define a clear set of expected outcomes and success criteria to measure the Guidance service against.
- We are strongly supportive of the development of an impartial utility service to help deliver Guidance. The Pensions Advisory Service guidance model is a good starting point in deciding what guidance should look like.
- Most customers would benefit from receiving individual advice from a financial adviser. Guidance will highlight this need. There is a need for a simplified advice model to make advice more accessible to more customers
- The Government could help drive better customer outcomes by initially contacting customers at an earlier age (say at age 50) to reinforce the importance of saving for retirement and to introduce them to the Guidance service. Providers can help raise awareness of the availability of Guidance in their regular customer communications.
- There is a real risk that if the guidance process is not fully joined up, it will not help customers achieve the desired outcomes. To be successful, at the end of the Guidance process:
    - there must be a smooth process for handing off customers requiring advice to a financial adviser
    - self serve customers (including existing 'roll over' customers) must understand how they can find and compare good products.
    - providers should be prevented from approaching customers with their <u>own</u> retirement income products for a fixed period after the provision of guidance
- Customers should have access to an industry level list of advisers who are willing to give retirement advice, the services they offer and typical fees.
- Self serve customers could be confused by the use of products names (for example a Variable Annuity is not an annuity) and pensions terminology. Guidance should refer to products in terms of what they offer customers (such

as certainty of income or income flexibility) and the language used should be straightforward to avoid further customer confusion..

Our detailed views on the 'Guidance Guarantee'

Guidance definition and desired outcomes

Objectives of guidance

The overarching objective of what guidance should achieve is a substantial increase in the numbers of people obtaining regulated advice at retirement and a substantial increase in the numbers of people accessing open market options on an advised or non advised basis.

It is perhaps easier to start by defining what we think guidance is not. Guidance will not:

- result in a personal recommendation for each individual outlining the best retirement income approach based on their personal circumstances
- recommend the best product in any category (for example, the best annuity or drawdown provider).

A clear set of expected outcomes and success criteria needs to be developed so the service can be monitored and measured against these on a regular basis. We would expect guidance to lead to the following:

Customer scenario	**Customer Outcome**
Customers with small pension pots and outstanding debts	Customer understands that they can take all or some of their pension pot as cash to pay off their debts. Customers understand the impact taking cash could have on their income tax and/or State Benefits.
Customers who are confident enough (and want to) make their own decisions	Customers will be able to make better and more informed decisions. Customers will have access to a list of providers who manufacture the product(s) they select and a framework for comparing/assessing those providers. If the process identifies a reason why the customer should be taking financial advice, this will be flagged.

Customers who are not confident about self serving, but do not currently have a financial adviser.	Guidance will help narrow down the range of options which may be suitable for them. It will ensure customers are better informed before they do receive advice. It will help them understand the different types of advice available and put them in touch with an adviser.
Customers with Guaranteed Annuity Rates (GAR)	Customer fully understands the value of their GAR and the consequences of losing it. Customer knows where to get other annuity quotes to compare it against.

We believe customers with total pension pots over a certain threshold (say £30k), or whose answers to guidance questions flag they should seek financial advice, should be referred to a financial adviser (independent or restricted with a wide panel) to help them determine the best option for them and find an appropriate product in that category in the market.

At the end of the Guidance process there must be a very clear path for customers to follow if we are to remove the risk of them disengaging from the process and just taking the easy option to stay with their current provider.

Customers who want to 'self serve'
They should have access to a solution which allows them to see which providers they can buy products from and give them a way of comparing providers/products.

- For annuities this should be a referral to a whole of market FCA registered bureau service which provides further guidance that meets certain regulated quality standards.
- For other product types this is more difficult. One potential route is for the FCA to have all providers prepare a Treating Customers Fairly based review of their propositions which contains full details of the suitability of their propositions for different customer segments, their product and engagement strategy including reference to the Guidance Guarantee. Outcomes should be tracked to ensure they are well aligned to the information the customer has keyed in.

  This is particularly important for non advised customers and customers who have simply 'rolled over' into an income drawdown option within their existing pension plan without taking advice. There is a need for an industry level information portal of the products available with agreed standards of charge disclosure and suitability statement to help them.

  We believe there is a risk that customers just looking to take some cash from their pension and leave the rest invested may be reluctant to go through the guidance process. This could leave providers in a difficult position, forcing them to:

- offer an execution only Income Drawdown product. This raises administration as well as Conduct Risk issues.
- make the customer choose another provider because they believe execution only Income Drawdown business is too high risk. This is likely to frustrate customers.

Customers who want advice
They should be made aware of the different types of advice/service available and given an indication of the costs. Ideally the guidance provider would introduce the customer to an adviser from an approved industry list.

Method

In designing the right approach, we need to recognise that consumers have different learning and communication preferences. This means a multi channel experience is required. From a cost perspective digital content must play a large part in the solution, particularly if we are to offer customers a repeatable process.

Much of the process can be undertaken by consumers themselves pre-guidance. This would include online information guides, interactive planning tools and decision trees which, as customers approach retirement, will help them understand the retirement financial planning options open to them and eliminate irrelevant options. The questions need to take into account customer attitudes as well as the 'straightforward' financial questions. Customer decisions are shaped by their attitudes, behaviours and knowledge as well as the size of their pension fund.

Our own research shows that although many customers are happy to look for information on their own, they often want to speak to someone during the process. This can be just to check their understanding or ask a question, rather than to ask for advice, but it takes up a significant amount of time. We believe that integration with telephone and/or web chat is crucial if we are to minimise the number of customers who opt out or disengage from the process. There is no cost effective way of delivering face to face guidance to everyone beyond, for example, offering a communal guidance module in the workplace, or in Royal London's case facilitating guidance to members who attend our road shows.

The current Open Market Option(OMO) process demonstrates that if we really want to change customer behaviours, we need to make the process easy. The more 'hand off's' and proactive actions a customer needs to take, the more likely they are to opt out or disengage from the process. OMO customers are currently informed about the benefits of shopping around and pointed to MAS, yet only a third of customers actually change provider and another third do not try to shop around at all.

To reduce the risk of customers disengaging, it is crucial the guidance process:

- **is simple with minimal duplication**
    - Customers must understand the language used, know what information they will need to provide and where to find it.

    - Questions should be 'dynamic' so that customers are only asked to answer those that are relevant based on the information they input.
    - Customers should not be asked for the same information multiple times during the process.
    - The customer should receive a report at the end of the guidance process. It should be in an industry agreed standard format so that it can be re-used (for example by a new provider, or by an adviser as a basis for the 'Fact Find' process).
    - Help needs to be available if the customer gets stuck.
- **has a clear action path at the end** – as described in the 'Objectives of Guidance' section.
- **has an opt out process** - funds should not be released until customers have either completed the guidance process or they have actively opted out of the process (for example, because they already have a financial adviser). This would mean the customer actually has to have some active engagement with the provider where the benefits of the guidance process could be reiterated. However it does raise the risk that customers opt out of guidance so they can release cash quicker.

Retirement is also unlikely to be a 'one and done' decision for everyone. Working patterns are changing, many people have multiple pension arrangements and customers are increasingly looking to 'phase' their retirement income over a number of years or put off buying a secure income until later in life. This means that building a cost effective, easily repeatable process is important.

Impartiality

We firmly believe that guidance must be seen as impartial if customers and the media are to have confidence in it. In the early stages of the provision of guidance a range of existing third party providers should be in the market in order to spread the load. TPAS, MAS and Citizens Advice all have strong impartial credentials.

In the longer term the most important thing is the quality of the guidance service itself.

To maintain the impartiality of the guidance:

- all guidance material (including tools, guides and call scripts) should be signed off as meeting the agreed standards by an independent party
- the service should be monitored, measured and independently audited on a regular basis to ensure it is meeting the agreed outcome based success criteria.

The Government could really help endorse and promote guidance by writing to everyone (at say age 50) to tell them about the guidance guarantee and to emphasise the importance of saving for their retirement. This would be a positive step towards driving better customer outcomes.

Scale and deliverability within the timescales

An average of 742,000 people reach age 65 each year and over 450,000 retirement income contracts are bought each year (Source: ONS and ABI). We believe that many customers are waiting until April 2015 to take advantage of the new rules which are expected to come in at that time. As a result, volumes from outset are expected to be very high which will put enormous pressure on the new service.

Given the challenging timescales, it is likely that the guidance process brought in in April 2015 will be a minimum standard to meet pent-up demand. Government and industry should work together post launch to deliver a guidance service which genuinely delivers on the 'guidance guarantee' and delivers the best outcomes for consumers.

Financial advice

In an ideal world every customer would receive advice from a financial adviser (an independent adviser or a restricted adviser with a sufficiently large panel). However in reality it is a complex and time consuming process for financial advisers to advise on these products due to the stringent regulatory requirements. This means that many mass market customers would not, or could not currently afford to, pay for advice.

To change this we believe the FCA needs to re engineer the current advice framework to allow robust, quality advice to be given at a lower cost than can be delivered now. The aim is to introduce a focused advice regime which is scalable and can be delivered over the web primarily, making advice more accessible to the mass market customers who need it. The FCA is already progressing on focused advice and ask that this is now concentrated on the 'at retirement' market and we also note proposals which APFA are developing in this respect.

Our own experience of providing financial guidance over the last 2 years through the Royal London Financial Planner (formerly Moneyvista) shows that around half the cost of financial advice consists of consolidating and collecting the customer data required for advice to be given. In the early stages of developing guidance we believe that customers should be encouraged to complete a standard data template online which can then be used in guidance and subsequently in the advice process to deliver a lower cost advice service.

In the medium term we believe this template can be largely pre populated if the FCA or government put in place an initiative for pension providers, banks, employers and the government itself to provide most of the required data electronically. This concept could obviously be used to reduce the costs of advice well beyond retirement planning.

We believe it is possible for providers to help their customers easily access financial advice at the end of the guidance process by proactively offering either:

- **an independent advisory service** – customers get access to a whole of market panel. To maintain impartiality, the advisers must not be employed by the provider and the advisory business must not be owned by the provider. The provider's product should therefore only be sold where it represents the best market solution for the customer.
- **a restricted proposition** - provided the product panels involved are wide enough to evidence that the consumer receives the best available market outcome in 90% of cases.

However, to avoid any accusations of not being impartial, we would prefer there to be an industry panel solution made up of advisers who publish the services they provide and a price list.

We go so far as to say that following guidance there should be a “cooling off” period during which incumbent providers would not be permitted to approach their customers with products or services **unless** they_ meet the “independent” or “90% of market” criteria above. This is to avoid the situation where providers use the pretext of a guidance process as a green light to hard sell their own, often poor quality, products to unsuspecting customers. We suggest that the cooling off period for provider approaches should be 6 weeks (taking the period lenders must wait before offering PPI as an analogy).

Answering the questions you raised

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?

Generally we agree that all pension customers should have access to the full range of options available. However some older style schemes and products were not designed to accommodate access to the full range of flexible options. It is not practical or cost effective for us to update all schemes and products to offer access to the full range of options that will be possible from April 2015. A compulsory statutory override would cause some major challenges to implementing the changes for April 2015.

Our preference is that a statutory override is introduced which allows (but does not require) schemes to offer the new income options, leaving schemes and providers to decide for themselves whether or not they offer the flexibility. Where the full range of options is not offered, providers should facilitate a transfer to another scheme or provider

If a statutory override is established, providers should be able to treat full withdrawal payments in the same way as under current triviality rules. This means the provider would apply a standard, single tax rate to all withdrawals. The individual responsible for completing a tax return if a different tax rate should apply.

A statutory override would directly interact with scheme rules, so HMT should work with providers in shaping the technical application of the override mechanism.

2. How could the government design the new system such that it enables innovation in the retirement income market?

The Government needs to work closely with the industry to design a new system that provides protection, good customer outcomes and does not stifle innovation.

The development of simple rules to allow the new range of 'flexible' retirement products is key. The complexity of the current tax rules limits retirement income shapes and the attractiveness of these products in the eyes of advisers and consumers.

Where there are specific tax avoidance issues, the response should be to target those who are deliberately attempting to abuse the system rather than bring in a broad brush approach which could be detrimental to the majority of people who are simply trying to build up adequate amounts of pension for their retirement.

We would like to see the FCA engaged in helping the industry offer a simplified, value for money advice process to make financial advice accessible to more mass market customers. This would help ensure more consumers get the best possible outcomes. There is a fear in the industry that the FCA view flexible retirement products as 'high risk'. Our research shows this increases the workload of advisers when making recommendations and puts the cost of providing advice out of the reach of many people. Defining good and bad outcomes for customers who purchase these products would help.

The introduction of the new NS&I Pensioner Bonds to over 65s from January 2015 is likely to form a major element of the retirement solution for many customers. As they are government-backed the rates are far higher than the best rates that commercial providers could offer. We believe there is a real risk this could destabilise the commercial market. There needs to be a level playing field where the bond is priced consistently with the funding arrangements in the Gilt market.

We believe good consumer outcomes will best be addressed if we have the right balance of both principles and product based regulations. For example:

- The budget changes are likely to drive lots of product innovation – some may be good and some may be bad. An example of a bad outcome would be where a provider adds guarantees into an income drawdown contract primarily as a means of retaining existing customers who might be in a better position if they chose an annuity on the open market. To help address such issues before they arise, we believe the FCA should lead the way in defining the standards it would expect to see in provider's TCF based proposition reviews.

- The investment performance of many drawdown customers may be negatively impacted by high platform, fund and/or advice charges. This could be addressed with greater transparency and competition.

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

It is clear the UK has a rapidly ageing population and pension savings have to last over longer periods of time than originally planned. So we agree the age private pensions can be accessed must rise. Having it rise in line with the State Pension Age makes sense as it provides an independent mechanism and stops the gap between taking the two types of pension growing.

We expect early access for those in ill health or with existing protected pension ages to remain.

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

Yes. There should be a level playing field across all tax advantaged pension schemes. However we would need to assess the practicalities of implementing this on older schemes, particularly Defined Benefit schemes.

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

We don't believe the minimum pension age should be increased further at this point in time. Such a change would seem inconsistent with the desire to encourage flexibility in the system to better meet the varying needs of customers.

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 believe the Guidance should be impartial and seen to be impartial. To meet this criterion Guidance must be delivered by an independent third party. TPAS, MAS and CAB are all potential providers of Guidance. We believe the TPAS model is a good starting point for what Guidance look like.

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 no difference between contract based and trust based pension schemes. There should be a level playing field across both types of pension scheme.

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

We believe the key thing is not to leave it all until just before the retirement date. The best outcomes will come from engaging customers well in advance, ideally throughout the accumulation phase. Providers can build on existing customer communication strategies to educate customers about the availability of impartial guidance at key points throughout the lifetime of their pension rather than overwhelming them with information right before retirement. This is in addition to the services offered by advisers.

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

Yes, transfers should continue to be allowed in accordance with the current legislative rules without the imposition of further restrictions.

It is important that decisions taken in respect of pension scheme legislation are considered carefully to avoid unintended consequences. Hence it is necessary to consider when it may be logical and beneficial for a member of a defined benefit (DB) scheme to transfer his entitlement to a defined contribution (DC) arrangement.

For example:

- A member in poor health at retiral may wish to transfer his DB benefits to a DC arrangement in order that his spouse will receive a greater retirement income if he dies earlier than his spouse. (Not all DB schemes provide a spouse's pensions on death in retirement)
- An unmarried member may wish to transfer his DB benefits to a DC arrangement in order be able to pass on his pension savings, including the value of the spouse's pension he does not require, to his dependents.

- As part of a divorce process the ex-spouse may wish to transfer the benefits within the DB scheme awarded by the court to her own DC arrangement.
- A member may wish to emigrate to another country where only DC arrangements are available.
- A member in poor health, or who has been made redundant in later life, may wish to take early retirement but is unable to do so within the DB scheme. In such circumstances the right to take a transfer value to a DC arrangement may be the only option to enable the individual to support himself.
- On leaving employment a member with a significant entitlement within a DB arrangement may wish to transfer his accrued entitlements out of the DB arrangement to avoid the adverse effect of the PPF compensation cap if at some future date the employer becomes insolvent.

In addition, UK employers may wish to offer de-risking options to members including the option of a transfer value in order to implement an appropriate de-risking strategy.

For the majority of DB scheme members the security provided by the DB scheme will outweigh the perceived flexibility offered by the proposed DC regime. However as described above for some members the flexibility offered by a transfer to a DC arrangement may outweigh the perceived security. Quite rightly the Government has stated, paragraph 1.7, that "each individual's circumstances are unique" and so just as for DC savers, DB pension savers should be trusted to make their own decisions about what is best for them.

Consequently, our opinions and comments on the options outlined under paragraph 5.15 for Private sector DB schemes are:

Remove the right to all members of DB schemes to transfer to a DC scheme, except in exceptional circumstances.

This would be an unfair and unnecessary restriction on members' rights and options. It may also be contrary to article 6, paragraph 1 of the proposed EU Directive on improving the portability of supplementary pension rights, which states that Unless a capital payment is made in accordance with Article 5(2), the Member States shall take the necessary action to ensure that if an outgoing worker is not covered by the same supplementary pension scheme in his new job, he may obtain on request and within 18 months after the termination of his employment the transfer within the same Member State or to another Member State of all his acquired pension rights.

Consequently this proposal is not practical.

Allow transfers from DB to DC arrangements but ring-fence the transferred amount and subject it to the old DC tax framework.

This would impose significant extra administrative complexity on DC providers which would imply additional costs to be met by the individual. It would create two classes of DC account. It would almost certainly cause confusion to individuals at retirement. Consequently this proposal is not practical.

Placing a cap on the amount which can be transferred from DB to DC in any year.

This would add significant extra administrative complexity on to the DB scheme administrator which would increase costs for UK businesses.

Members may be confused as to why only part of their benefits has been transferred and may fail to understand why they are required to request a series of transfer values over a number of years. Members may also consider that the Government has prevented them from obtaining good investment returns on their pension savings by delaying the full transfer.

It could lead to an additional "stranded pots" problem if a transfer value exceeded the cap by say £5.

Consequently this proposal is not practical.

Continuing to allow DB to DC transfers, but only subject to Trustee approval.

Trustees are not authorised to give financial advice to scheme members, but this proposal would impose an obligation on them to allow, or disallow, a transfer to a DC arrangement. To the member this would be seen as implied advice that the transfer was a good idea, hence the scope for a lawyer seeking "mis-selling" redress from Trustees if a DC transfer does not turn out to be beneficial in the long term would be large. Consequently this proposal is not practical.

Leaving in place the existing flexibility and arrangements for transfers from DB schemes to DC arrangements

As described above, there are good, sensible, member-centred reasons why the existing legislation permitting transfers from DB schemes to DC arrangements should continue. Consequently we favour this solution, which has the additional benefit of not adding any additional costs on to scheme administrators or HMRC.

Hybrid schemes

Paragraph 5.17 requests comments on how to deal with hybrid schemes if the new flexibilities for DC arrangements go ahead.

Pension schemes have developed "hybrid" features over time as a consequence of changes to legislation. In our opinion, rather than consider a hybrid scheme as a single entity for the purpose of the proposed tax regimes, it is more sensible to consider each benefit structure as it accrued at the time and to apply the relevant tax regime to that part of the benefit accrual. This is consistent with the approach taken by the PPF which requires money purchase elements of accrual to be separated from the DB compensation, treated as separately identifiable DC pots and to be provided by a separate DC provider, when a scheme enters the PPF.

- The most common form of hybrid scheme is in fact a normal DB scheme with AVCs. AVCs operate predominantly as DC pots. They accumulate due to the member choosing to pay some of his savings into an investment vehicle run by the DB scheme. It is likely that members will have understood the Budget and subsequent Government statements to mean that they will be able to exercise all the new flexibilities of the DC regime for their AVCs, particularly if they have other DC arrangements in respect of other employments. In our opinion the DB part and the AVC part of the scheme should be treated separately with the DB part subject to the DB legislation and the AVC part subject to the DC legislation. This is consistent with the approach taken by the PPF.

- Hybrid schemes which provide DB entitlements for one period of service and then DC accumulation thereafter, with no "better of" comparison are very similar to the DB with AVC model above. Again, in our opinion the DB part and the DC part should be treated separately with the DB part subject to the DB legislation and the DC part subject to the DC legislation.

- Where a hybrid scheme offers a "better of" comparison, the member cannot know the form of the benefit until retiral. Any system which only decides the relevant tax legislation at that time will cause uncertainty for the member and could lead to mistakes due to misinterpretation of the tax regime. The Budget announcement has already decided that Cash Balance schemes, which have previously always been considered to be a form of DB scheme, will be subject to the proposed DC tax regime. In view of this we suggest that the Government should decide to treat all "better of" comparison hybrid benefits as subject to the proposed DC tax regime, thereby removing possible confusion for individual members.

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 current regulations require that before an individual transfers DB entitlements to a DC arrangement he must obtain specialist professional advice to understand the nature of the benefits involved and the risks inherent in such a transfer. The existing system is designed to ensure that members understand the balance between security within the DB scheme and the possible flexibilities offered by the DC regime. In our opinion members are able to weigh up this balance for their own specific circumstances as described in question 9.

Consequently, given these existing safeguards, the government does not need to be any more concerned about DB to DC transfers than it is about DC savers making use of the proposed DC flexibilities.