AJBell Investcentre

ADVISER UPDATE

COVID-19: Change to pensions and savings

27 April 2020

The outbreak of the COVID-19 virus has meant enormous changes to almost all parts of our lives, including pensions and savings.

The Government, the FCA and TPR have been considering current rules and how these should change at a time when the markets are experiencing economic turmoil, and providers and advisers are focusing on both helping their customers and adapting to lockdown life.

Like others, the priorities of the Government and the regulators have changed massively over recent weeks as they concentrate on the immediate issues to hand. That – and the changes in their own staff – have had the obvious knock-on effect on their current workload and has meant delays to the 'normal business' of consultations.

This update details the main changes to pensions and savings announced by the Government and the regulators in recent weeks. The situation is still changing, and it's worth watching out for new announcements.

MiFID 10% drop rule is relaxed

In a 'Dear CEO' letter on 31 March, the FCA relaxed the rules for firms to notify clients when their portfolio drops by more than 10%, and for each subsequent fall.

The FCA has confirmed it won't take any enforcement action where the firm:

- has issued at least one notification to a retail client within a current reporting period, indicating their portfolio has decreased in value by at least 10%; and
- subsequently provides general updates through its website, social media and other generic, non-personalised client communications – these communications should update clients on market conditions, explain how clients can check their portfolio value and invite clients to contact the firm if they wish; or
- chooses to stop providing 10% depreciation reports for any professional clients.

This relaxation is very welcome. The process of providing continuous client notifications was causing many firms excessive amounts of work for very little obvious benefit for clients at a time when resource could be redeployed elsewhere.

The FCA has said it will adopt this approach for the next six months, until the end of September.

More flexibility on client identity verification

Complying with the money laundering requirements is more difficult in the current environment. Although firms still have to comply, the FCA has confirmed firms can use other methods which existing guidance outlines can be used in remote situations. These methods include accepting scanned documentation, seeking third-party verification of identity such as from a lawyer or accountant, and verifying phone numbers, emails and/or physical addresses by sending codes to the client's address to validate access to accounts.

Investment pathways and platform switching provisions

As part of the FCA's Retirement Outcomes Review, from 1 August 2020 firms were due to implement a new investment pathways process for non-advised drawdown customers. Customers will be asked if they want to choose a default pathway investment fund instead of picking their own funds or sticking with the current investment choice. In addition, anyone investing more than 50% in cash will be asked if that is an active decision, and will receive an initial warning about the risks they face, as well as yearly warnings if they remain invested primarily in cash.

The current climate is putting pressure on drawdown providers which are busy implementing these new processes. The FCA has recognised this and has delayed the implementation date to 1 February 2021.

Whilst this delay is welcome, we hope the FCA uses this opportunity for a fundamental rethink of the investment pathway rules. The policy of moving the whole drawdown fund to a single investment on one day looks flawed in today's economic environment, as does warning clients against holding cash.

Similarly, the rules for platform switching – which were due to be implemented from July – will also be delayed until 1 February 2021.

Furloughed workers

As part of its emergency response to the COVID-19 outbreak, the Government has pledged to pay up to 80% of the salaries of employees who are temporarily 'furloughed', up to a maximum of £2,500 a month (equivalent to £30,000 a year).

In addition, the self-employed will be able to claim 80% of their average monthly profits from the Government up to a maximum of £2,500 a month. The average will be calculated based on profits over the last three years.

Directors and sole directors

Directors, as employees, can apply to be furloughed. Furloughed employees must not perform any work for the employing business. However, in practice few directors would remain inactive, particularly as they have statutory and fiduciary duties as directors.

Any claim would be based on 80% of the director's salary (up to the maximum of £2,500), but would not include the value of any dividends received.

Relevant earnings for pension contributions

When working out an individual's relevant earnings to calculate tax-relievable pension contributions, advisers and individuals should use the agreed furloughed salary. For example, if the employer is to pay the employee 80% of their salary, then this should be used and not the full salary.

Automatic enrolment pension contributions

The Government has confirmed the grants received by employers will also cover employer automatic enrolment pension contributions up to the statutory minimum of 3% of band earnings (between £6,240 and £50,000 for 2020/21).

This means an employee earning £30,000, and on a furlough salary of £2,000 a month, will receive an employer contribution of £44.40. They will still have to contribute their own personal contribution of £59.20 (4%), and will also receive tax relief of £14.80 (1%), meaning a total pension contribution of £118.40.

The employer still has to automatically re-enrol any employee who three years ago opted out of automatic enrolment.

Employer pension contributions and salary sacrifice

The Pensions Regulator (TPR) has made it clear employers have to maintain pension contributions, even if the staff are furloughed. If contributions are based on a percentage of salary, and furloughed salaries are reduced, then the monetary amount of the pension contributions will also fall.

Any pension salary sacrifice agreement the employer and employee have entered has to continue as normal, but the pension contribution due for a furloughed employee may have been affected by any reduction in salary. Employers may need to recalculate pension contributions.

Defined benefits transfers

The Pensions Regulator (TPR) has outlined some good practice ideas for trustees of defined benefit schemes in the current crisis, including how trustees can approach current valuations, and that they should be open to the idea of suspending debt repair contributions.

TPR also warned trustees to be on the look-out for transferring members being targeted by 'scammers and unscrupulous financial advisers'. To help stop the scammers, TPR is allowing trustees to suspend DB transfer quotations and payments for the next three months. So any individual who is currently in the throes of a DB transfer – or is considering one - may find the process abruptly halted.

It's up to the trustees whether they want to suspend DB transfers.

Financial advisers and planners working on transfer cases will need to contact trustees to find out their approach. But getting this clarity from trustees just creates another step in an already-complex transfer process, and will only put more time pressure on the ability to complete transfers within the set timescales.

TPR has said these new measures for DB schemes will remain in place until at least 30 June 2020, and that it would review this date as things progress.

At the same time, the FCA has delayed its policy statement on advice on DB transfers until much later in the year. This was due out imminently, and promised to tackle whether contingent charging was allowed. It was also likely to introduce a new form of advice – abridged advice – which could have helped more clients access advice around their DB transfer.

The FCA has confirmed its ongoing work with firms providing defined benefit transfer advice will continue, so maintaining well-documented files is going to remain key. It has also reminded advisers that they may have to address consumer misconceptions that changes in the current environment make transfers more suitable, including aspects such as increases in transfer values, concentration on death benefits, and worries about the future of their employer, and therefore pension scheme.

General levy

Every pension scheme pays TPR an annual general levy, the size of which depends on the type of scheme and the number of pension scheme members it has.

As a result of a recent consultation, this levy was due to be increased by 10% from 1 April 2020, with further increases from April 2021 to be set by a further review of the levy.

However, the DWP has announced the planned increases will be withdrawn completely for this tax year. Instead, it will review the structure of the levy with the industry over coming months. This will lessen the financial pressure on all types of pension scheme.

Delayed consultations

FCA

The FCA has extended the closing date for responses to open consultation papers and calls for input until 1 October 2020, and has rescheduled most other planned work. This includes delaying:

- the policy statement following the recent consultation on advice on DB transfers;
- the consultation on suitability of advice;
- the consultation on non-workplace pensions to quarter 3 or quarter 4 this year; and
- guidance on vulnerability.

TPR

The regulator is temporarily suspending all its regulatory initiatives

HM Treasury and Department for Digital, Culture, Media & Sport (DCMS)

The Treasury and DCMS have delayed the closing date on their joint consultation to extend the dormant assets scheme to mid-July.

DWP

The DWP is busy focusing on helping people access the benefits they need in the current situation. It is extremely likely it will delay some consultations.

The Pensions Bill – which includes provisions on pensions dashboard and more powers for the TPR – was due to enter report stage after the Easter recess; we will have to wait to see if the planned legislative timetable is delayed.

NS&I

National Savings & Investments (NS&I) has reversed a previous decision to cut interest rates with effect from 1 May 2020.

It announced the rate cuts in February 2020. However, it decided to cancel the interest rate reduction to support savers during the coronavirus pandemic.

This will be welcome news for some investors at a time when other institutions are cutting interest rates, following the cut to the Bank of England base rate to 0.1%.

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