

## A RESPONSE FROM THE SCOTTISH GOVERNMENT TO HM TREASURY CONSULTATION “FREEDOM AND CHOICE IN PENSIONS”

Below is a response from the Scottish Government to the HM Treasury consultation on specific pensions announcements by the UK Government. The response focuses on two key areas of the consultation: first, on the move to more flexible private pension arrangements; and second, on changes to Minimum Pension Age.

### More flexible private pension proposals

The Scottish Government agrees in principle with the greater flexibility proposed by “Freedom And Choice In Pensions”. However, much of the detail is still to be firmed up, and we wait with interest to see the range of responses – in particular, from independent pensions experts to the consultation. Such experts have already identified significant problems with particular aspects of the reforms, which now require additional legislation to fix.

Taking the UK Government’s proposals as a whole, there is a need for consideration of how the proposals set out in “Freedom and Choice in Pensions” – which describe a more flexible approach to private pension saving – sit with the arrangements for new Defined Ambition pensions and the enablement of ‘Collective schemes’ announced in the Queen’s Speech (5/6/13). We are concerned that pension reform is being rushed, without careful consideration. While we welcome the opportunity to respond to the consultation, it is arguably a missed opportunity not to consult on pension reforms in the round, in order to be clear that changes are coherent.

The Scottish Government welcomes the ‘guarantee’ that individuals approaching retirement will receive free and impartial face-to-face guidance to help them make the choices that best suit their needs. However, there are concerns about the genuine value of this ‘guarantee’ to individuals. Although particular types of guidance will be free, there are concerns that the cost to industry of providing it will nonetheless be passed on to consumers. Further detail is therefore needed on the type and level of the guarantee that consumers will receive. It is concerning that key detail in the consultation still lacks clarity, such as in this case:

*4.17 The government will consider ways to ensure that individuals are equipped with the skills and information to choose the adviser, broker or comparison site that suits their needs and that they understand the nature of the advice or service they will be getting.*

It will also be important to have clarity about the timing at which such free and impartial advice would become available – **people need advice well before ‘the point of retirement’**.

Support for older people, particularly poorer pensioners, is long overdue. And whilst the changes will introduce greater flexibility for people with private pensions, it is not yet clear whether they will benefit those who are struggling to save for their retirement. Fully regulated advice is too expensive for many consumers to access, particularly those with modest pension pots. The fact that people are not able to get advice on making the most of their pension savings is socially wrong.

There also needs to be greater clarity about the potential impact on access to social care. For example, if an individual without large assets buys property with a lump sum from their pension, rather than taking an annuity, this would mean that they might become liable for social care costs later in life that they would otherwise have avoided. Further, wealthier older people might be able to afford to take risks based on high quality advice that they can buy, whereas poorer individuals might struggle.

### Proposals on Minimum Pension Age

The Scottish Government is disappointed that the first opportunity to comment upon the UK Government's intention to increase the Minimum Pension Age for occupational pensions from 55 to 57 from 2027 is via the *Freedom And Choice In Pensions* consultation. Bearing in mind the obvious implications of this for individuals in Scotland, the Scottish Government would have expected much earlier engagement in advance of any public announcement. There is clear evidence of differences in average life expectancy across the UK constituent countries, which leads to widely different average lifetime state pension values – a difference that the University of Stirling has described as “actuarially unfair”. The UK Government should have taken this into account when making these proposals.

If implemented, the UK Government's proposal on the Minimum Pension Age will also affect all public sector workers. The Scottish Government considers that bringing this change in from 2027 undermines the Chief Secretary to the Treasury's much vaunted promise of “no more reforms of public service pensions for twenty-five years”. Not only has the Chief Secretary failed to put into the UK Government's Public Service Pensions Act 2013 the promised high hurdle to be breached before further reforms can take place, but this latest change breaks both the spirit of and moral obligation set out in the Chief Secretary's previous commitment. The Scottish Government considers this to be an unacceptable breach of that commitment and calls on the UK Government to rethink the application of this policy to public servants.

The Scottish Government recognises that the UK Government is proposing a lead time to 2027 before this policy is introduced. We also note recent practice by this UK Government to accelerate previously agreed timescales, as with the rapid increase in state pension age to 67. It is the Scottish Government's view that the UK Government should include a right for existing scheme members to protect their existing Minimum Pension Ages. Doing so would be consistent with the principles of fair treatment for people who have already invested in occupational pension schemes and with the practice adopted the last time the Minimum Pension Age was increased, via the Finance Act 2004.

The Scottish Government is concerned that there is limited evidence of any thought about the implications of a Minimum Pension Age ten years less than the State Pension Age on members of occupational pensions schemes that have a Normal Pension Age lower than the State Pension Age. Such schemes include, but are not confined to, Police and Firefighters pension schemes in Scotland which form a significant part of the reward package available.

The Scottish Government shares the concerns of stakeholders of such schemes who will see that, far from being offered “Freedom and Choice” they are facing further constraints on when they can access unrestricted the pension benefits they have worked so hard to build up. We therefore call on the UK Government to address these concerns in further developments of this policy.

**THE SCOTTISH GOVERNMENT, 5/6/2014**

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