Introducing a pensions advice allowance

Personal tax

01 December 2016

LITRG has welcomed consultation on a new ‘pensions advice allowance’, but highlights in its response a number of concerns for taxpayers on low incomes.

The government announced at Budget 2016 that it would consult on the introduction of a ‘pensions advice allowance’ (PAA). The aim of this – a tax-free withdrawal of up to £500 from existing pension savings, available in addition to the tax-free lump sum when crystallising benefits – is to help people afford financial advice.

The Low Incomes Tax Reform Group (LITRG) responded to the consultation on the allowance, launched at the end of August 2016, welcoming the opportunity for people to access pension funds for the purpose of paying for independent advice on retirement planning. However, the response expressed concern that the proposed £500 would not be anywhere near adequate to meet the probable fees of an independent financial adviser or other qualified adviser for full and proper advice.

LITRG’s response recommended:

- that the upper limit be raised to at least £1,000 or a maximum of 5% of an individual pot
- that provision is made for the limit to be regularly reviewed and uprated to ensure that it continues to be a realistic figure as compared to changes in the cost of advice (we suggest it is reviewed at least every three years)
- that interaction with means-tested benefits legislation is considered and addressed to make clear that any pension withdrawal under the PAA is not to be considered income for means-tested benefits purposes
- that savers should be given two bites at the cherry, one at least 10 years before permitted pension age in order to give savers sufficient time to take steps to improve their pension position, and again at the point of crystallisation

- that adequate advice on the impact on state benefits should be included, especially in view of the increasing number of auto-enrolled pension savers who may amass only small pots
- that only qualified and regulated advisers should be able to draw the PAA from providers to maximise the value of advice given and minimise fraud and scamming
- that the pensions industry be required to issue standardised notices about the availability of the PAA facility at the appropriate dates and the proposed new Public Financial Guidance service should promote knowledge and awareness at all stages of its pensions guidance
- that the government might consider a penalty-free Lifetime ISA withdrawal analogous to the PAA, if savers have chosen to provide for their retirement in that scheme instead of, or in addition to, a traditional pension.

The LITRG submission can be found on the LITRG website.