Pension advice allowance

Matthew Swynnerton looks at issues for trustees to consider in relation to the introduction of the pension advice allowance

On 6 April 2017 a new authorised payment was introduced – the pension advice allowance payment – which will allow people to take specified amounts from their defined contribution (DC) pension pot tax free to pay for retirement financial advice. This was introduced in light of a recommendation from the Financial Advice Market Review, which found that high quality financial advice can have a significant impact on retirement incomes.

Pension advice allowance payments can be made from money purchase arrangements and therefore this issue is relevant not only for DC schemes but also for DC Additional Voluntary Contributions in defined benefit schemes. These payments can also be made from hybrid arrangements. It is not mandatory for schemes to permit pension advice allowance payments but trustees may want to consider doing so. This article looks at the legislative criteria to be met for a payment to be a pension advice allowance payment and therefore an authorised payment, as well as some of the issues that trustees will need to consider if they are planning to offer this option.

The definition of advice

The payment must be for "retirement financial advice" or the implementation of such advice. The legislation defines "retirement financial advice" as "advice in respect of the person's financial position, including their pension arrangements and the use of their pension funds". HMRC guidance provides some examples of advice that it is satisfied is caught by this definition, which include advice on whether in retirement the person will need to access sources of income other than their pension savings. HMRC also provides some examples of advice that would not be covered by the definition. The advice must also be regulated financial advice provided by a financial adviser regulated and authorised by the Financial Conduct Authority.

The amount of the allowance and limits on use

The payment cannot exceed £500 and must be paid by the scheme directly to the financial adviser. Individuals are permitted three uses of the allowance in their lifetime (meaning that a total of £1,500 can be withdrawn) but will only be able to use it once per tax year. HMRC guidance notes that there is no facility to carry forward any unused allowance nor to make two payments in respect of the same tax year even if they total no more than £500.

Declarations from members

The payment must be requested in writing and contain a declaration that the limits on the use of the allowance are not exceeded and that the advice meets the requirement to be regulated financial advice.

Issues for trustees to consider

The first issue for trustees to consider is whether they want to permit pension advice allowance payments to be made by their scheme. If they decide that they would like to do so, there are a number of issues that they will need to consider and potentially take advice on before implementing the changes, including the following.

- Whether any amendments will be needed to the scheme rules to permit such payments and whether to place any restrictions in the rules on when such payments can be made.
- The advisers to whom the scheme will permit payments to be made. For example, whether there will be a panel of approved advisers or whether choosing an adviser should be the explicit responsibility of the scheme member.
- Whilst the member will have to provide a declaration that the limits on the use of the allowance have not been exceeded, the Treasury has stated that providers, trustees and advisers are still expected to operate with basic due diligence to prevent misuse of the allowance. Trustees should therefore consider what due diligence processes to put in place, for example, checking the member's record for previous uses of the allowance.
- Whether any other changes are needed to administration processes to ensure payments are made in line with the requirements in the legislation (for example, trustees may want to consider checking that the adviser is regulated and authorised by the Financial Conduct Authority) and what changes are needed to member communications.

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