Protecting new pensioners

by John Hunter

One of the areas of argument when friends of UKSA gather together is whether we should concentrate our limited resources on shareholder issues only or whether we should concern ourselves with wider issues of investment and saving.

I'm in the latter camp. The trouble with the former approach is that the affairs of private shareholders are a hard sell. After all we're just rich old guys with time on our hands moaning about our 'rights', aren't we? And well able to look after ourselves. No, for me the way forward is to promote the voice of the individual as a force for good in addressing faults – either moral or economic – in the wider financial system. I have some support for this attitude from both our magazine title and our strapline – both of which refer to 'private investor' and not 'private shareholder'.

This is my excuse for writing about the scandal of the British Steel Pension Scheme (BSPS).

As background, you will know that pension freedoms introduced in April 2015 allow pension scheme benefits to be taken in current cash instead of future income (subject to a number of quite complicated provisos). Further, scheme members can choose on maturity to have their benefits transferred out of their scheme to another provider – called a Defined Benefit Transfer. (In passing, I believe this to be a staggeringly irresponsible development, pandering to an industry that knows a gravy train when it sees one, and to an electorate that recognises the attraction of having a party today and getting someone else to pay for the consequences tomorrow).

The risks were of course recognised. But the authorities took some comfort from the protections provided by the trustee system of pension fund governance backed by the Pension Regulator, the strength and sophistication of the financial advice industry and the regulatory controls around that industry.

And then along came the threatened insolvency of TATA Steel UK – the successor to British Steel.

In seeking a rescue it was necessary to deal with pension fund obligations. The pensioners were offered three options: stay in the scheme (which effectively meant taking a benefit cut as the scheme entered the Pension Protection Fund); transfer to a new scheme, with better benefits than the PPF; or transfer out.

The first problem was that 'stay in the scheme' was the default option, although transfer to the new scheme would have been advantageous for the great majority. The pensioners needed advice to determine that was so (although generic advice would have sufficed, as the W&P Committee report demonstrates). Local sources of advice were overwhelmed. In the event 25,000 pensioners (20%) chose the inferior default option.

Meanwhile the plant was besieged by advisers offering transfer options. Extraordinarily, in a heavily regulated industry determined to avoid adviser bias, it appears that 'conditional charging' is permitted, whereby a fee is paid to the adviser *only if the transfer is made*. Many were, and cases of abuse continue to emerge. 2,000 have currently exercised the transfer option, with an average transfer value of £400,000, amounting to £800 million.

Research through a national sample of 88 cases by the Financial Conduct Authority – the regulator responsible – has found that less than half the transfer advice given by regulated advisers was demonstrably suitable. Further, where transfer is recommended just 35% of the products recommended were demonstrably suitable. Nationally, transfers are being taken at the rate of 100,000 per year. To quote the Committee report: 'Another major mis-selling scandal is already erupting and we therefore call on the relevant bodies to treat this as such and take urgent action'.

Of course this is right, but we need to attack root causes. One is the lack of basic financial education, creating a climate of ignorance in which it is easy for this sort of scam to flourish. That is why UKSA and ShareSoc have begun a joint education initiative to try to find a way to help. It's a very long-term project – we meet every three months – but private investors don't need to be persuaded of the merits of long-term thinking.

Time to get angry.

You may want to read the report of the parliamentary Works & Pension Committee, a body chaired by Frank Field. It tells a gripping story extremely well, it doesn't mince its words and it tells you all you need to know about the false confidence that reliance on rules and regulation can engender. It was published on 15 February 2018 and you can find it at https://tinyurl.com/parlcommittee. Some extracts from the report follow.

Extracts from the Committee report

From 'Conclusions and Recommendations'

Contingent charging gives rise to an inherent conflict of interest. The theoretically independent adviser is only paid if they advise a particular course of action. The FCA acknowledges this concern, but hopes that guidance and careful monitoring will ensure adequate consumer protection. This model has failed BSPS pensioners. The FCA's own national research also gives cause for great concern. Another major misselling scandal is already erupting and requires urgent action.

Many BSPS members were shamelessly bamboozled into signing up to ongoing adviser fees and unsuitable funds characterised by high investment risk, high management charges and punitive exit fees.

From 'Summary'

Unsuitable advice on DB transfers is not confined to BSPS members. Research by the Financial Conduct Authority (FCA), which regulates advisers, shows that only half of such advice nationwide meets its standards. Yet over 100,000 people a year are taking DB transfers on the back of this advice. Another major misselling scandal is already erupting and we therefore call on the relevant bodies to treat this as such and take urgent action. A key driver of poor advice is contingent charging. Genuine independence is not compatible with a charging model that only rewards advisers for recommending a particular course of action. We recommend a ban on contingent charging for DB transfer advice.

Beaufort Securities

Readers may be aware that in early March the Financial Conduct Authority used special powers to shut down Beaufort Securities, the small-company stockbroker specialising in AIM-listed mining stocks.

The FCA has appointed administrators to protect assets. The Financial Times reports that investigations have so far evidenced £800m in investments such as pensions and ISAs and £50m in trading accounts. Clients are unlikely to get all their money back.

If you have any experience with Beaufort Securities that you would like to share with other members, we would like to hear from you.