Dear Mr Field

Thank you for your letter of 29 June regarding pension transfers among members of the British Airways New Airways Pension Scheme (NAPS). You have asked a number of questions which I have provided responses to below. I have also provided some additional important information regarding St. James’s Place and the advice we provide in this area which I hope provides some helpful context.

St. James’s Place

St. James’s Place plc is a FTSE 100 company managing and advising on circa £95bn of assets for around 600,000 clients. Within the group, St. James’s Place Wealth Management plc is authorised and regulated by the Financial Conduct Authority and provides advice to clients via our team of appointed representatives which account for over 3,600 authorised advisers located throughout the UK.

Our Approach

As a result of Pensions Freedoms, we have seen a significant increase in interest from clients seeking advice so as to better understand their options at retirement. This includes members of defined benefit schemes who want to understand the benefits and risks of transferring to a defined contribution scheme. As you know, a defined benefit transfer can only occur with advice. As one of the largest providers of regulated financial advice in the UK, this means that we have inevitably received a significant number of queries from individuals looking to understand the choices available to them.

We take a cautious approach to providing advice in this complex area. We start from a position that, for most people, retaining the benefits of a defined benefit pension is likely to be in their best interests. There are, however, circumstances where it is in the interests of the client to consider their options and potentially transfer. The majority of these situations arise where individuals are at the point of retirement (or are potentially suffering from ill-health), have significant alternative sources of income in retirement, and where the additional flexibility of a drawdown arrangement outweighs the guarantees being foregone for the individual through a transfer.

1 where the amount to be transferred is greater than £30,000
Nonetheless, our position remains that transfers out of defined benefit schemes are appropriate only in a small number of cases. We therefore maintain central standards for our advice that reflect this stance. All of our advisers are required to adhere to these standards, as well as to their own personal professional standards. We also use a central team of specialist checkers who are independent of the adviser. They check all defined benefit cases before any transfers are completed. In addition to the guidance and checking in place, we maintain a professional qualification threshold on advisers who work in this complex area. I have included more detail on these and other safeguards that we have in place in the Appendix to this letter.

Whilst I have focused on our approach to defined benefit transfers, it is important to note that the advice we provide in this area represents only a small element of the wider advisory service we provide to clients regarding pensions. Clients can find pensions a highly complex area in terms of taxation and benefits and there have been significant and frequent policy changes in recent years (not just relating to pension freedoms) which have resulted in an increasing demand for broad, well informed pensions advice. Our central focus as a business is ensuring the advice we provide is suitable, something we guarantee to our clients, and recent external suitability reviews have given us further reassurance that this is what we deliver in practice.

Information regarding our work with British Airways pilots

We have worked with clients who are British Airways pilots in relation to their overall financial circumstances for a number of years. Whilst a number of our advisers may have relationships with clients who happen to be BA pilots, one particular St. James’s Place adviser firm has developed a very close working relationship with this community. This adviser first began working with BA pilots in 2002 and, through client referrals, has worked with a number of BA pilots and their families.

By way of context those within the BA pilot community typically:

- Earn a salary of between £150k and £220k per annum which creates complex tapered annual allowance issues resulting in self-assessment tax to be paid each year (particularly if they are fortunate to benefit from regular pay-rises or significant promotions).
- Have accrued a guaranteed pension in retirement of between £50-£80k per annum which means they are facing Lifetime Allowance issues at the point of crystallisation.
- Are financially capable and analytical individuals nonetheless faced with very complex Pension Scheme rules.

Frequent changes to the scheme over the past 11 years, including changes to future accrual rates, retirement ages, and funding levels of the scheme, coupled with numerous lifetime allowance and annual allowances changes, have created a clear need for high-quality advice.

In particular, the complex nature of calculating tapered annual allowances within a defined benefit scheme has meant that this pilot community has regularly sought advice both in connection with the options available for paying any tax exceedance and also the best way to maximise their pension funding for the future.

When significant changes were made to the scheme in 2007, and a redundancy scheme for pilots was subsequently introduced in 2009, a number of existing clients approached the adviser asking him if he

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2 “We guarantee the suitability of the advice given by members of the St. James’s Place Partnership when recommending any of the wealth management products and services available from companies in the group”

3 The scheme has 6 different levels of accrual rates (n/45, n/52, n/60, n/67, n/75 and n/130), 4 different retirement ages (55, 60, 65 and plan 60 option at 55) and a range of Annual Allowance Payment Options.
would offer briefing sessions to cover both pensions and taxation. These briefing sessions are specifically designed for the Flight Crew (i.e. pilots, not cabin crew and ground staff) and cover the complexity of the BA scheme, the complexity of the tax treatments of the scheme, as well as other considerations such as the scheme security and the role of the Pension Protection Fund (PPF). For clarity, the sessions are in no way promoting or designed to promote pension transfers. These have now been running for the past 9 years and it is therefore also important to note that they were not established in response to the closing of NAPS announced at the end of last year.

Turning to your specific questions, I have set out below responses to each of the individual questions posed:

**Response to questions**

1) **Does St. James’s Place organise similar seminars aimed at members of other DB pension schemes? If so, which ones?**

The relationship between the SJP adviser and members of the British Airways Pension Scheme outlined above is not typical within our business and, as explained above, exists for reasons that are specific to that scheme and the needs of some its members. There are, however, occasions where our advisers may ask for additional support from St. James’s Place for certain groups. Examples where this has occurred include presentations to Judges, Senior Fire Officers, Senior Police Officers and a number of NHS Professionals. You will be aware, that all of the above schemes are bound by The Pensions Schemes Act 2015 which restricts transfers out of unfunded defined benefit public service schemes so the focus of the events is that of education rather than with a view to providing advice around defined benefit transfers.

2) **How are these seminars publicised among scheme members?**

As explained above, the British Airways pilot briefings date back to 2009 and became known primarily through word of mouth. Referrals and recommendations from existing clients is still the main reason for awareness of these briefings. In addition, the key other sources of awareness are:

1) St. James’s Place Adviser Website ‘Microsite’. The pension and taxation briefings are highlighted on one of our adviser firm’s websites.

2) Fleetlist. This is an online service developed by a British Airways pilot that allows flight crew to swap schedules with other pilots. Although this is only accessible to British Airways pilots, the developer enables organisations to advertise via online banners. Our adviser advertises his expertise in pension and investment planning for BA flight crews. This banner contains a link to the microsite mentioned above.

3) BALPA itself has an online ‘forum’ exclusively for BA pilots. This allows pilots to post comments. Posts may range from “Current Affairs” to “Personal or Leisure” with matters as diverse as photography to Lifetime Allowance issues being raised. The community post questions or indeed helpful hints on any subjects of interest to this community. Neither St. James’s Place nor St. James’s Place advisers have access to the ‘forum’ but existing clients will tend to recommend and announce upcoming pension briefing events.

3) **How many and what proportion of attendees subsequently arrange a transfer via St. James’s Place?**

Since 2009, there have been 44 pension and taxation briefings which have been attended by 353 different British Airways Flight Crew (pilots) and Senior Managers. Of those attending, 58 in total (16%) have subsequently arranged a transfer through St. James’s Place with just 7% transferring within a year of
attending the seminar. When the NAPS scheme closure was announced in November last year, BA Pilots were faced with complex choices requiring decisions both in relation to ‘transitional options’ for their existing defined benefit scheme as well as options relating to the new defined contribution scheme. During this time, there has been no change to the frequency or process of the briefings. Since November, therefore, there have been 3 briefings with 28 attendees and, at the time of writing, none of these have arranged a transfer, albeit there are two individuals who are currently taking advice with a view to doing so.

4) **How does St. James’s Place communicate to attendees:**

   **a) The value of independent and impartial financial advice in respect of such transfers, and**

All advisers, and thus all advice, are governed by the FCA’s Conduct of Business Sourcebook (COBS) Rules, irrespective of whether the adviser is deemed to be ‘Independent’ or ‘Restricted’. Under the COBS rules, all advice must be suitable for a client. This includes advice on defined benefit transfers. St. James’s Place seeks to ensure that clients and prospective clients have all the information they require to make informed choices. We also have controls in place, including those in the Appendix to ensure that all the advice we provide is suitable and provide such a guarantee to our clients.

For this reason, we believe that the key issue is the suitability of advice, whether this is delivered by an adviser with the status of ‘Independent’ or ‘Restricted’. I should note that there is no legal nor regulatory definition of impartial financial advice. There is only financial advice. Equally, I would add that the distinction between ‘Independent’ and ‘Restricted’ dates from the time of Retail Distribution Review introduced at the end of 2012 and was, as the FSA said at the time, a construct principally designed to address the potential for conflict or product bias in any recommendation an adviser, otherwise claiming to act independently, might make4. As I have said, all advisers are bound by the same set of rules on the actual provision of advice. Recent data published by the FCA suggests that the majority of advice provided to the UK population in 2017 was conducted on a restricted basis5.

The pensions and taxation briefings offered by St. James’s Place advisers do not constitute regulated financial advice. They explain that personalised regulated advice is compulsory for those individuals wanting to consider a transfer. Similarly, we ensure attendees are aware of some of the risks of seeking transfer advice including hidden charges, aggressive tax planning relating to offshore pension schemes, investments which have no hope of delivering the returns needed and/or high-risk investments, all areas we don’t and never have advised on. Where clients are provided with personalised financial advice through a follow up meeting, we make it clear that St. James’s Place advisers offer Restricted Advice.

**b) The benefit of retaining safeguarded entitlements in a DB scheme?**

The pension and taxation briefings for BA pilots are run jointly by the St. James’s Place adviser (who has significant in-depth knowledge of the scheme) alongside our Group Head of Pensions. These briefings last several hours and cover a range of complex scheme information including worked examples of both annual allowance charges and lifetime allowance calculations. Included within the briefings are sections on:

- The advantages of the BA Pension Scheme which include the fact the level of income is guaranteed for life

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5 FCA Data Bulletin 13 - Table 20 - Over 60% of ‘initial advice services’ were conducted on a restricted rather than independent basis. [https://www.fca.org.uk/publications/data/data-bulletin-issue-13](https://www.fca.org.uk/publications/data/data-bulletin-issue-13)
- Spousal benefits which mean the pension will continue to be paid for the remainder of their spouse’s life
- Inflation as income will increase in line with the rise in the Consumer Price Index (subject to certain maximums within NAPS)
- The simplicity with which it provides income in retirement.

The briefing also covers the benefits of Flexible Retirement which was introduced by British Airways in October 2012 and allows certain members⁶ to draw some or all of their pension built up before final retirement whilst continuing to be able to build up benefits for future service (e.g. if members already over 55 agreed to permanently reduce their working hours).

The British Airways scheme is generally positioned as ‘gold-plated’ to attendees with sections on the role of the PPF as well as worked examples of the dangers of opting out by looking at the significant differential in cost if a pilot were to seek to acquire the same level of additional guaranteed benefit through the purchase of an annuity rather than remaining in the scheme and accruing benefits through the scheme. As the briefings are generic educational seminars, where individuals subsequently seek specific advice regarding their own individual circumstances, a full fact find and advice process is established.

5) Do the “relevant parties” who agree to the arrangement of these seminars include the sponsoring company and the trustees of the pension scheme?

The briefings are arranged privately and take place in the Hyatt Place Hotel. Attendees register themselves. BALPA, British Airways and trustees of the pension scheme are most likely aware of the briefings taking place but there is no formal agreement between St. James’s Place, our advisers and these parties in regard to running the sessions.

I hope the above provides you with the information you need but do let me know if you have any further questions.

Yours sincerely

Andrew Croft

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⁶ There are very specific criteria that have to be met for an individual to qualify for this option and is dependent on age, contract of employment and line management approval.
Appendix - Controls employed in providing advice around defined benefit transfers

- Advice Guidance
  - St. James's Place operates strict advice guidance which sets out the required conditions on which a defined benefit transfer would be considered appropriate.
  - This guidance is produced, monitored and updated by an Advice Committee made up of St. James's Place professionally qualified employees separate and independent from the adviser community.
  - All advisers are bound by this guidance as well as their own professional standards
  - The suitability of the advice provided by our advisers is guaranteed by St. James's Place.

- Adviser Accreditation
  - In order for a St. James's Place adviser to provide advice on defined benefit transfers, the adviser must first hold the appropriate FCA recognised Pension Transfer qualification (for example the CII exam AF7)
  - The adviser will also need to be 'approved' to conduct advice in this area by a Senior Manager within the organisation responsible for the oversight of the adviser.
  - The adviser will then need to pass an additional St. James's Place internal defined benefit accreditation exam.
  - The above requirements reflect St. James's Place internal policies which go above and beyond regulatory requirements.

- Reviewing the Advice
  - A key part of our operation is our Business Assurance division made up of c150 employees whose sole function is to conduct independent checks on the advice provided by St. James's Place advisers.
  - For areas of advice which are considered higher-risk (such as those relating to defined benefit transfers), we operate a policy which requires 100% of cases to be pre-approved.
  - The individuals within business assurance conducting the reviews of any defined benefits transfer advice are Pension Transfer Specialists, fully qualified to FCA standards and technically competent to provide this advice to clients themselves.

This means that every single St. James’s Place client who is advised to transfer from a defined benefit scheme will have had their advice provided by a suitably qualified professional adviser, working within clearly articulated and controlled advice guidance parameters, coupled with professional reviews of the proposed advice prior to it being communicated to clients. We believe this results in high quality advice and good client outcomes regardless of whether the advice is to transfer or not.

- Additional Safeguards
  - For a number of years, we have engaged with 3rd parties to conduct annual external independent reviews of our advice and advice checking procedures. Last year, this involved a specific review around defined benefit transfer advice.
  - This has provided additional reassurance around both our advice guidance and control environment in relation to defined benefit transfers.
  - As further reassurance, the FCA included 65 of our cases in their suitability review in May 20177. They found that our suitability results were superior to the rest of the industry’s results of 93% suitable. In addition to this wider review of advice, the FCA have reviewed a small number of defined benefit transfers advised on by St. James’s Place and have found them all to be suitable.