

Financial Capability – The Government’s Long-Term Approach

A Consultation Response by the National Association of Pension Funds

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Executive Summary

1. Introduction

The NAPF welcomes the Government's objective of helping to improve financial capability, especially, with regard to pensions and retirement. A real step change in pension provision can only be achieved by increasing people's understanding of pensions.

The NAPF believes that by paring the retirement advice message down to its essentials, and creating a new type of low-cost financial guide, a real breakthrough can be achieved.

2. The Retirement Planning Message

Drawing on its experience of operating PENSIONSFORCE, a free pension guidance service for employees, the NAPF has developed a first hand appreciation of the challenge ahead.

Individuals do not find it easy to save for retirement. Such decisions are complex and depend on a range of economic, human, policy, and financial advice factors.

However, we believe that people can be motivated to save for retirement if they are provided with simple, high-level, genetic guidance, which reduces the pension saving message to a few simple questions:

- Should I save for a pension?
- How much should I save?
- Where should I save?
- At retirement, what is the right kind of pension (decumulation product) for me?

In our view, therefore, retirement planning need not be complicated.

3. Delivering the Retirement Planning Message

Due to the high cost of providing face-to-face advice and concerns about legal liability arising from consumer protection legislation, often the retirement planning message is delivered solely in the form of written information. It is left to chance as to whether people will be able to make sense of these written communications and, if not, whether they will seek out further help.

However, in practice and using the experience of our PENSIONSFORCE guides, people often tend not to understand the information provided and also fail to find someone who can help them further. Inertia results.

But there is a solution. This lies in providing low-cost pension guides who can provide the kind of face-to-face support that so many people need when it comes to making financial decisions on pensions.

In our view, such guides – Generic Financial Advisers – could operate at low-cost by providing group presentations in the workplace, perhaps on the basis of those

currently being offered by the NAPF's PENSIONSFORCE and the Financial Services Authority's *Make the Most of your Money* initiative.

Moreover, as a wide range of research shows, this approach is also to be recommended because employees trust their employers on pensions more than many other sources, and prefer to receive guidance on a face-to-face basis.

Recommendation

To promote and communicate the 'retirement planning' message and to offer help on related issues an advice service should be offered free to individuals, through the workplace. The service should be proactive, cost effective for employers and accessible to the majority of working people in the UK.

4. Generic Advice for Retirement Planning

Generic financial advice, that is to say personalised but unregulated advice, should aim to provide general, high-level, information and guidance. It should not seek to replicate the role currently being played by the existing world of financial advisers; in particular, it should not involve specific product recommendations.

Drawing on our experience of PENSIONSFORCE, we believe that such guidance should fall into four stages:

- Signposting
- Interpreting
- Coaching
- Steering

While "signposting" would involve guiding individuals to good sources of information, for example a booklet on their pension scheme, "interpreting" would help them understand what it means. The "coaching" stage would go a step further, helping people think about the options and choices on offer - should they join their company pension or not, should they contribute more or less? Finally, in circumstances where the right course of action is very clear, "steering" may be appropriate. This would involve suggesting which sort of action, at the generic level, would be right – for example, if you want to retire early and you do not expect to receive means-tested benefits, you need to raise your saving level for retirement. This is, however, very different to the kind of advice given by a regulated financial adviser which would usually go one or maybe two steps further by researching the savings options available and recommending a specific product.

Given the complexity of the issues involved, and the importance of simplifying them into an easily digestible message, it will be important for Generic Financial Advisers to be well qualified and competent. We suggest, therefore, that Generic Financial Advisers should only be authorised to undertake their role where they have obtained an appropriate qualification, such as the standards currently being developed by the Financial Services Skills Council. An important skill will be the ability to recognise at what point generic advice finishes and that of today's regulated advice begins.

5. Who Should Deliver Generic Advice for Retirement Planning?

We envisage generic advice for retirement provision being delivered by individuals motivated by the thought of helping people manage their financial affairs. Many people might be suitable. They might be people employed by the HR department of a large or medium sized employer. Alternatively, they might be people employed by third sector bodies whose specific remit is to provide guidance and help. It is also possible that Independent Financial Advisers may be interested in providing this service, though the Government may feel it would be better to retain a separation between the world of guidance from that of commercial advice in order to ensure that Generic Financial Advisers are seen to be independent.

6. Personal Accounts

The introduction of auto-enrolment in 2012, both to Personal Accounts and existing pension provision, will heighten the need for financial understanding about retirement planning. There is a risk that some people who are auto-enrolled may not be better off saving, due to the effect of debt, means-tested benefits or a short working record. Improving financial capability and encouraging the creation of independent Generic Financial Advisers should help ensure that the right people save after 2012.

7. Contacts

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1. Introduction

1.1 The NAPF welcomes this opportunity to comment on the important issue of financial capability. For many years now it has been recognised in the pensions industry that no matter how diverse the “supply” of pension provision in the UK, a real step change in pensions saving will not be achieved until something is done to stimulate “demand”. The Government’s financial capability programme meets this challenge head on.

1.2 The NAPF represents over 800 occupational pensions’ schemes, which encompass over 10 million pension scheme members, provide payments to over 5 million pensioners, and account for almost fifth of the stock market. The NAPF also operates PENSIONSFORCE, a free-to-use pensions’ guidance service to employees funded by the Department for Work and Pensions. Many of the comments in this response are informed by our experience of running PENSIONSFORCE

1.3 Our response argues that a real breakthrough can be made in retirement planning if a new emphasis is placed on providing simple, high-level, generic advice via a new type of financial guide – a GFA (Generic Financial Adviser) operating through the workplace. It considers the following issues:

- The retirement planning message;
- How the retirement planning message should be delivered;
- Generic advice for retirement planning;
- Who should deliver generic advice for retirement;
- Personal Accounts.

2. The Retirement Planning Message

The complexities to be overcome

2.1 Individuals do not find it easy to save or plan for retirement. This is not surprising as such decisions are complex and depend on many different factors:

- Personal circumstances: how much money a person has after essential expenditure; whether the person is likely to inherit a lump sum; whether a workplace pension is available and, if so, what type or value it is;
- Human factors: the age at which a person begins to save; their ability to understand the complexities of pensions; and their attitude towards savings and investments;
- Policy: Government policy on pensions and savings, especially the generosity of state pension provision, and whether this is of a contributory or means-tested nature;
- The Market for Advice: especially the high cost of providing one-to-one regulated advice.

Clearly, in light of this complexity, individuals need help and guidance. So far, affordable help has not been forthcoming. But it does not have to be this way.

However, from the perspective of the individual, they only need to answer four key questions:

- Should I save?
- How much should I save?
- Where should I save?
- At retirement, what sort of pension (decumulation product) is right for me?

In our view, when it comes to improving financial capability for retirement, it is important to keep these questions in mind when developing information and guidance.

3. Delivering the Retirement Planning Message

3.1 Today, in many workplaces, the typical response to those seeking information on retirement planning is to offer a leaflet, guidance document or website address. There are several reasons for this.

3.2 Firstly, many employers and pension practitioners believe that only authorised advisers may provide firm advice on pension saving and so prefer not to offer any guidance rather than run the risk of being held liable for giving incorrect advice. (In reality, the position is less clear cut, with some circumstances in which advice on occupational pensions can be given. However, the position is complex and cannot be easily understood.)

Table 1: The Legal Complexity of Providing Advice in the Workplace

Although an employer or anyone else may give advice on occupational pensions (with the exception of certain advice relating to annuities) without being authorised by the FSA, this is only the case where they are not in the business of providing financial or investment advice and do not receive commercial benefit for helping their employees. Moreover, this permission, however, does not apply to third parties acting for employers, such as pension administrators where the pension administration function has been outsourced.

There are also grey areas for employers and their representatives, for example, when recommending individuals should join their occupational pension schemes and/or the treatment of advice relating to Group Personal Pension schemes (GPPs), Stakeholder arrangements (those currently not classed as occupational schemes) and after 2012, Personal Accounts.

In the case of GPPs and Stakeholder pensions, employers, or people directly employed by them, but not third parties, may provide advice without the need to be authorised by the FSA. Like occupational schemes there is a proviso that the party giving the advice should not be in the business of providing financial or investment advice and should not receive any commercial benefit.

3.3 Secondly, the comprehensive nature of regulation in this area means that many financial advisers believe it is not cost-efficient to provide one to one advice for many people on low to moderate incomes. Indeed, this was the finding of both the Sandler Review and the Pensions Commission.

3.4 And what do people do with the information given them? In the experience of PENSIONSFORCE guides, often very little. Faced with only understanding part of what is before them and unsure how to find additional guidance, many give up and place this decision in the “too difficult” box.

The Workplace – a low-cost way to provide face-to-face advice

3.5 However, the NAPF believes that such inertia can be overcome by utilising the workplace as a channel through which to provide face-to-face support. Providing help through the workplace is a cost-efficient way of reaching large numbers of

people. And research shows that many people trust their employers when it comes to pensions and prefer to receive advice on a face-to-face basis.

3.6 While some employers may wish to provide retirement planning advice and information themselves, today, many others hold back due to cost constraints and concerns about legal liability. However, this need not be a problem, if employers were to make greater use of the Government's tax incentive for providing employees with information on pensions (up to a limit £150) and, if the Government encourages the spread of specialist third party pension guides.

3.7 This type of workplace model is operating already. Two examples are:

- PENSIONSFORCE (NAPF)
- Make the most of your money (FSA)

Table 2 PENSIONSFORCE – What is it?

<p>PENSIONSFORCE is a free, independent and non-branded service which provides information about pensions to working people at their workplace.</p> <p>Many employees in small firms do not have access to advice on pension saving as the economics of advice means that few Independent Financial Advisers or employee benefits consultants seek to serve this sector. As a result, over 3 million employees do not join the pension scheme available to them and are missing out on valuable benefits. PENSIONSFORCE aims to address these weaknesses by providing a free service for employers to use with their employees.</p> <p>PENSIONSFORCE concentrates, in particular, on three groups of the under pensioned: employees with access to a workplace pension who have not joined it; women; and employees in small and medium sized companies.</p> <p>The service:</p> <ul style="list-style-type: none"> • Increases awareness of the need to plan for retirement, and the risks of not doing so; • Raises awareness of the options available when planning for retirement (including working longer); • Ensures that when individuals are in a position to make a decision they can do so on a more informed basis; • Helps people seek further advice and information. <p>PENSIONSFORCE is provided by expert volunteers called Pension Guides. Delivery is at the workplace and in work's time via a group presentation lasting about 30 minutes to 1 hour. These presentations focus on:</p> <ul style="list-style-type: none"> • Helping people recognise key factors about planning for retirement; • How to obtain a state pension forecast and why this action makes sense; • Recognising the nature of occupational and personal pension provision, and; • How to trace old pension arrangements through the DWP's pensions tracing service. <p>PENSIONSFORCE is funded until December 2007 by the DWP's Pensions Education Fund as part of the Informed Choice Programme.</p>
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3.8 These face-to-face services currently address a wide range of topics, for example, how to budget, financial capability, where to go to get more information about sources of retirement savings, investment choices and who to ask for additional help.

3.9 The NAPF would welcome the opportunity to work with Government using PENSIONSFORCE as a model to develop a retirement planning advice service.

Table 3 What People Say About PENSIONSFORCE

Employer Views

“I have been very impressed with the knowledge and enthusiasm the PENSIONSFORCE volunteers have shown in tackling this challenge. In particular, they have made the presentations interactive and fun as well as being informative”.

Ian Baines, Pensions Manager, eDF Energy

“As an employer we are keen for our staff to think about their financial future and how our pension scheme can help. PENSIONSFORCE was a way of giving our staff the opportunity to hear advice from a completely independent perspective. We really welcomed their support”.

Rebecca Buck, Head of HR, PA Group

The Employee Perspective

“The key message was to start saving as soon as possible. I thought there was a good balance between the different types of retirement savings, which I found interesting and informative.”

“I thought it was really good, not complicated. I did recently get a pension forecast but feel a bit ashamed to say I have not looked at it yet! It was a good business-like session and very informative. I kept all the literature and just now need a kick and some spare time to find out how destitute I will be in my dotage.”

“It was useful thanks. Could we have another presentation focused on our pension arrangements. Perhaps an idea for a business breakfast?”

Recommendations

- The legal framework around the giving of advice by employers, or those acting on their behalf, to their employees should be simplified in order to clarify what advice can be given without authorisation.
- More effort should be put into promoting the Government’s tax relief for employers providing information on pensions to their workforce. If the Government were to promote it better, it could help kick-start the take up of advice services.
- The workplace provides the economies of scale necessary to achieve low-cost face to face generic advice on retirement planning issues.

- The Government should encourage the development of low-cost third party pension guides, similar to those offered by the NAPF's PENSIONSFORCE and the FSA's *Make the Most of Your Money* initiative.

4 Generic Advice for Retirement Planning

4.1 Generic financial advice, that is to say personalized and unregulated advice, should aim to provide general, high-level, information and guidance to the four key questions already outlined: Should I save? How much should I save? Where should I save? What should I do at the decumulation phase?

4.2 However, it will also need to deal with the very many other questions, some detailed, some quite broad, which tend to arise in such discussions between employees and their pension adviser. For example, it may be necessary to provide an explanation of the pension on offer in a particular workplace or some general guidance on the value of the State Pension.

4.3 And questioning is far from tidy. Individuals will often start with a simple question of fact, which then leads to a follow-up question seeking clarification, before going on to ask for views on what, in general, might be the best course of action.

4.4 Generic pensions' advice, therefore, needs to:

- offer answers to most questions seeking information;
- be able to help individuals understand what the information means and how they personally might be affected;
- enable the provider of the advice to talk over any options;
- point out a course of action or actions which may be appropriate.

4.5 Drawing on our experience of operating PENSIONSFORCE, the NAPF believes that such generic advice activities can be divided into four stages:

- Signposting;
- Interpreting;
- Coaching;
- Steering.

Signposting

4.6 The purpose here is to identify and possibly provide access to relevant sources of reference material e.g. scheme documents, websites, guidance leaflets etc, which might help the party seeking the advice to understand the issues relevant to their circumstances. It may also help identify if there are any choices to make. The signposting role does not involve explaining or interpreting the information that is provided.

Interpreting

4.7 If 'signposting' is not sufficient to enable the individual to take action, it may be necessary, for the Generic Financial Adviser to interpret and communicate terms used in the reference material; or provide answers to questions where the answer is

verifiable as a matter of fact (e.g. does my wife get a pension under this arrangement if I die?).

Coaching

4.8 And if signposting and interpreting are not sufficient “coaching” may be required. Here the aim is to identify and communicate the choices available, the consequences of making choices, and the factors that should be taken into consideration when making a decision. “Coaching” may involve a personal fact find to ensure the individual’s preferences and attitudes are taken into account when identifying choices.

Steering

4.9 In most cases advice is not given on what the best course would be since the decision should be made by the individual. There may be occasions, however when it would be helpful for the adviser to provide a steer for the individual of a preferred course of action or actions. For example where an employer is contributing towards a pension arrangement and it is clear that saving via a pension is not going to affect any entitlement to means tested benefits. As is the case now, only regulated advisers would recommend specific products.

Table 4 Legal Issues and the Four Stages of Generic Advice

Under common law employers are liable for negligent advice given to their employees.

When providing generic pensions advice, there should be no problem with ‘signposting’ and ‘interpreting’ since it is only information that is given and no attempt is made to tell the employee what action to take.

For coaching, however, there is a possibility that an employee will believe that advice has been given i.e. he or she has been told what to do. The intention, however, behind the role of a coach is to ensure employees remain responsible for their own decisions. The adviser should merely suggest the factors an employee should take into account when making decisions and, as appropriate, talk these factors over. It is important to make this distinction clear to employees from the outset.

For example at the **start** of a meeting the adviser should explain that the purpose of the meeting is not to advise employees on what they should do, but rather, that the aim is to provide information and to explain some of the factors people should take into account when reaching a decision of their own.

Standards for those providing generic advice

4.10 Given the complexity of the issues involved, and the importance of simplifying them into an easily digestible message, it will be important for Generic Financial Advisers to be well qualified and competent. Only those with sufficient experience and expertise, who are able to recognise situations where regulated advice is necessary, should provide generic advice, of the interpreting and coaching standard.

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4.11 The Financial Services Authority (FSA), as part of its wider initiative of the National Strategy for Financial Capability, has already approached the Financial Services Skills Council (FSSC) to engage with employers and stakeholders to develop industry performance standards that could be approved as National Occupational Standards (NOS) for providers of generic financial advice.

4.12 These standards will define the boundaries for generic financial advice as a stand-alone service and establish a set of core skills and competences for those who engage in this activity, whether in the private or not for profit sector.

4.13 The FSSC is also being funded by the Qualifications and Curriculum Authority (QCA) to work with employers to complete a portfolio of National Occupational Standards and S/NVQs for pensions' management, advice, consulting and administration which also encompasses generic advice as it specifically affects pensions.

4.14 Generic Financial Advisers should be people who not only hold the necessary experience and knowledge and who meet the standards once established by the FSSC but also have the ability to adapt and communicate at a level commensurate to the needs of their audience.

5. Who Should Deliver Generic Advice for Retirement Planning?

5.1 We envisage generic advice for retirement provision being delivered by individuals motivated by the thought of helping people manage their financial affairs. Many people might be suitable. They might be people employed by the HR department of a large or medium sized employer.

5.2 Alternatively, they might be people employed by third sector bodies whose specific remit is to provide guidance and help. It is also possible that Independent Financial Advisers may be interested in providing this service, though the Government may feel it would be better to retain a separation between the world of guidance from that of commercial advice in order to ensure that Generic Financial Advisers are seen to be independent.

Table 5 – The Range of Advice and Who Could Deliver it

Retirement Planning Advice				
Range of Advice	Signposting	Interpreting	Coaching	Steering
Nature of Advice	Identify or provide access to relevant sources of reference material Aim: To help people seeking advice to understand the issues.	Interpret and Communicate terms used in the reference material Provide answers to questions where the answer is verifiable as a matter of fact.	Identify and communicate: - The choices available - Consequences of making choices - The factors to be taken into consideration when making a decision.	Taking into account the individual's personal circumstances Provide a steer for the individual of a preferred course of action or actions.
Providers of Advice	HR Staff, Junior Pensions' Practitioners GFAs	Experienced/Senior Pensions' /HR Practitioners meeting GFA Standards, IFAs meeting GFA Standards.	Experienced/Senior Pensions' Practitioners meeting GFA Standards IFAs meeting GFA Standards	Experienced/Senior Pensions' Practitioners meeting GFA Standards IFAs meeting GFA Standards.

Recommendations

- Establish the role of Generic Financial Adviser (GFA). This function should operate outside the existing function of regulated advice although a regulated financial adviser holding the necessary expertise could also function as a GFA.
- The NAPF would welcome the opportunity to work with Government using the PENSIONSFORCE model to develop the provision of generic financial advice in the workplace, using the services of GFAs who can demonstrate they meet the standards once developed by the FSSC.

6. Personal Accounts

6.1 The introduction of auto-enrolment in 2012, both to Personal Accounts and existing pension provision, will heighten the need for financial understanding about retirement planning.

6.2 As the Pensions Policy Institute has shown, there is a risk that some people who are auto-enrolled may not be better off saving, due to the effect of means-tested benefits or due to a short working record. There is also the question as to whether it is appropriate for people with high-levels of unsecured debt, especially where high interest rates apply, to save in Personal Accounts. While together, these groups will only make up a minority of those to be auto-enrolled, for the overall success of the 2012 reforms, it is important that employees are given clear and easy to understand information about who should save.

6.3 Improving financial capability and encouraging the creation of independent Generic Financial Advisers should help ensure that the right people save after 2012.

7. Contacts

7.1 For more information about this response, please contact:

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