

Interim Report of the Thoresen Review on Generic Financial Advice

A response by

The National Association of Pension Funds

January 2008

Introduction

1. The NAPF welcomes many of the Interim Report's recommendations, in particular, the proposal to adopt a hybrid approach and to ensure that Generic Financial Advice (GFA) is impartial and not linked to the sale of financial services. We do, however, feel that the review has underestimated the role that group face-to-face delivery in the workplace can play. In our experience this is a particularly efficient and effective method of delivering GFA. Before making any final recommendations the Review group should undertake a pilot study in this area as soon as possible. We also comment on the recommendations related to funding. We think there may be a misunderstanding about the role and nature of occupational pension schemes.
2. Our responses to the specific questions set out in the Interim Report are provided in the annex.

About the NAPF

3. The NAPF is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF member schemes hold assets of around £800 billion and account for approximately one fifth of investment in the UK stock market.
4. The NAPF already operates a successful GFA service, PENSIONSFORCE¹. PENSIONSFORCE was established in 2007 to deliver an independent GFA service via the workplace. As well as covering issues relating to pensions and retirement, PENSIONSFORCE also covers general issues such as savings and debt. We have a vast amount of experience of delivering GFA in the workplace and would be happy to pilot a work-based GFA service through PENSIONSFORCE.

¹ See box on page 4 for further details on the PENSIONSFORCE service

Executive Summary

- The NAPF fully supports the Interim Report's recommendations for the principles to guide the GFA service, especially the emphasis on impartiality and prohibiting a link to product sales.
- We also welcome the proposal to adopt a hybrid model and a "partnership approach" involving a central body to agree the messages and a wide number of external partners to deliver it.
- The workplace offers one of the best ways to deliver a GFA service. It provides an environment which:
 - is trusted;
 - cost-effective;
 - often acts as a key "trigger" for making financial decisions;
 - is an ideal location for applying peoples' preferred type of guidance, ie. group face-to-face advice;
 - provides an easy means to reach a very wide audience, ie. all those in work.
- We recommend that the review group should undertake a pilot study on group face-to-face services in the workplace. The NAPF is happy to assist the Review Team in the design and development of such a pilot.
- Given the important nature of the GFA service, in an ideal world funding would be via general taxation. However, in light of the other pressures on the public purse, we support the Review Team's proposal that it should be funded jointly by Government and those that stand to benefit commercially from a GFA service. This would include organisations such as financial product providers and intermediaries.
- Occupational pension schemes are not set up for commercial benefit so we do not think the Review Team is right in thinking that they should contribute to the cost of the system. As entities established under trust law they may only be used to directly benefit the individuals who save in them for a pension.
- Occupational pension schemes already contribute significant sums to provide pension scheme members with information and guidance. In addition, they already pay a levy for pensions advisory services. Adding a further levy would simply amount to a charge on pension scheme members and so reduce pension saving. Such an outcome would be undesirable for everyone.
- The NAPF's PENSIONSFORCE service, which already provides generic guidance, has an established and recognised brand in this area.

NAPF Support for the Interim Report's Recommendations

5. The NAPF wholeheartedly endorses the principles for a GFA service identified in the Interim Report:
 - impartiality;
 - supportive and informative;
 - preventative;
 - available to all;
 - not linked to product sales; and
 - guidance that empowers but does not recommend a product or provider.

6. We also welcome the recommendation to adopt a hybrid approach in which a core body delivers public awareness, produces written material, provides information and advice by internet and telephone, and is responsible for training and / or accrediting of external partners. We agree with the Interim Report that the hybrid approach would make it possible to adopt a partnership approach in which the central body works with a wide number of external partners to deliver centrally agreed messages. We also agree that such an approach would minimise the risk of the new central body duplicating existing services while at the same time encouraging a range of new GFA providers to enter this field.

Workplace Delivery

7. While the Interim Report does refer in several places to the workplace as an ideal location for the delivery of GFA services, we do not feel it focuses sufficiently on this vital channel. The workplace is a location where people are already primed and engaged to make financial decisions (salary, bonus, share options etc.), and where the most popular means of delivering guidance (group face-to-face advice) can be provided cost-effectively due to the economies of scale resulting from group presentations. The advantages of providing Generic Financial Advice via the workplace include:
 - **A Trusted Environment:** As recent data from the Department of Work and Pensions' [survey](#) 'Trust and confidence in pensions and pension providers' (18 October 2007) shows, employees trust their employers more than others when it comes to pension provision, followed by the not-for-profit sector, and then the financial services industry. The workplace is an ideal place to encourage engagement with financial decision-making. In DWP Research report 294 views on providing advice on pensions in the workplace were positive and included:

- *'I think it's probably the best place to talk to people about pensions. You talk with your colleagues about how much you are saving and how much you are putting away for your pension, so in that respect it's a good thing. I can't think of another way to do it apart from your own home. But even then it's better in a group because other people can ask questions that you haven't thought about. So I think a group situation is probably better.'*
- (35-49; male employee)
- **Cost Effectiveness:** Group presentations provide a very inexpensive means to providing face-to-face advice. The average cost of providing workplace GFA via PENSIONSFORCE was just £12 per employee per meeting, the cost of providing GFA-type services can therefore fall as low as £12 per employee.

PENSIONSFORCE

PENSIONSFORCE is an independent service provided free to employers. Its purpose is to help people understand the importance of planning for old age. PENSIONSFORCE is provided through specially appointed volunteers called Pension Guides who have extensive knowledge of pensions. Pension Guides deliver presentations during working hours. Presentations last from 30 minutes to 1 hour and can be tailored to meet the needs of the employer and their employees. PENSIONSFORCE does not provide regulated financial advice. Instead it offers information using interactive methods that:

- raise awareness of the need to save;
- increase appreciation of the need to plan for retirement;
- ensure that people are better able to make informed choices; and
- show people where to go for more information.

To date PENSIONSFORCE has run 108 meetings, invited 4500 people and

- **The Workplace - a key "trigger" for financial review:** Entering employment, changing jobs, or receiving a pay rise are all "triggers" that encourage individuals to think about their financial needs and review their personal budget.
- **Group face-to-face meetings – the preferred channel choice:** Most people prefer receiving financial guidance on a face-to-face basis. 81% of those surveyed after PENSIONSFORCE meetings said they prefer to

receive information about retirement planning at such meetings. Of these 53% said they preferred group meetings and 28% one-to-one meetings.

- **Near Universality:** Around 70% of UK adults below retirement age and in work carry out their work in a workplace. This amounts to over 20 million people. Many of them, such as those on low to moderate earnings, are hard to reach with existing information and advice services. This makes the workplace a very good means of engaging with individuals.
8. The Review should place more emphasis on the workplace as a means of providing GFA. It should undertake a workplace group face-to-face pilot as soon as possible. The NAPF would be happy to work with the Review Team to construct and deliver the pilot. We are confident that the pilot will demonstrate the effectiveness of the workplace as a location for delivering workplace advice.

Suitable Sources of Funding

9. We see financial capability as offering a universal benefit and that as such it should be financed through general taxation like other important public services. We recognise, however, that this may not be a practical option. So we therefore agree with the Interim Report's conclusions that a reasonable approach would be to charge those who stand to benefit commercially from the proposed advisory system – in the first instance, financial product providers and the intermediaries through whom they sell their products.
10. Guided by this principle, we do not see the logic in the Review Team's proposal that occupational pension schemes should contribute to the costs of the system. It seems there may be a misunderstanding of the role and nature of occupational pension schemes. Most occupational pension schemes are set up as trusts and their assets are held in trust to pay their members' pensions – not for other purposes, however much in the public interest. We would emphasise that occupational pension schemes are not set up for commercial benefit, so the comparison with commercial financial service providers is not appropriate. A levy on occupational pension schemes would amount to a levy on the pension savings of scheme members and could result in a reduced pension.
11. The role of occupational pension schemes and their sponsors (usually an employer) does, however, extend to providing generic information about pension and retirement options. Moreover, occupational pension schemes and their sponsors already devote considerable resource to providing such information, directly through member communications and indirectly through

levies used to fund TPAS and other industry-wide initiatives such as PENSIONSFORCE, to scheme members. They are thus already contributing on a large scale to raising standards of financial capability. We outline their contribution in more detail in the following paragraphs.

The Occupational Pension Schemes' Contribution to Financial Capability

12. According to the NAPF's latest Annual Survey, over half of pension schemes provide group meetings as a means of communicating to employees about their pension and almost a quarter provide one-to-one advice. Some of the larger pension schemes also provide sophisticated websites which contain a great deal of generic financial advice on the different options available for contributing to a pension and for drawing it.
13. Specific data on the provision of generic advice is not readily available but figures in our Annual Survey, published in January 2008, give some indication of the amounts involved. Annual administration and communications costs for the median scheme replying to the survey totalled £400,000, of which we would estimate about 10 per cent is for member communications.
14. Member communications costs for the 277 schemes that provided data for the NAPF Annual survey are in the region of £24 million a year (this data relates to pensions specific guidance).
15. Overall, therefore, we believe that these indicate that, for the universe of occupational pension schemes, the amounts involved are substantial. The shift from defined benefit to defined contribution pension provision, where the investment risk is borne by the scheme member, will probably involve even higher amounts being spent in the future.
16. To these sums should be added the advice provided by The Pensions Advisory Service (TPAS) as it is funded by a levy on occupational pension schemes and personal pension providers (and paid to TPAS via the DWP). Grant income, as set out in TPAS's Income and Expenditure Account, was £2.7 million for the year to 31 March 2007. In addition, the open market value of the services undertaken by TPAS's 450 volunteers, all pensions professionals, is estimated at £10 million. The pensions sector is therefore already making, through TPAS alone, a substantial contribution to financial capability.
17. Finally, there are numerous other ways in which the pensions sector contributes to financial understanding. The NAPF's PENSIONSFORCE provides services worth around £250,000 per year (funded from January 2008 by the

NAPF and through the free services provided by the Pension Guide volunteers).

Conclusion

18. The Interim Report by the Thoresen Review sets out an important analysis for the role and method of delivering Generic Financial Advice. The NAPF welcomes the Interim Report and endorses the proposed principles for the service, especially the need for impartiality, and the recommendation that a hybrid approach be adopted.
19. However, we believe that the Interim Report fails to place sufficient emphasis on the many advantages of the workplace as a means for delivering popular, engaging and cost-effective Generic Financial Advice that starts to change behaviour. We, therefore, urge the Thoresen Review to take greater account of this channel and to include it in the pilot studies without delay. The NAPF is happy to work with the Review team on a workplace GFA pilot.
20. Finally, while we would prefer the new service to be provided from general taxation, we can see that a reasonable alternative would be to levy those that stand to commercially benefit from the new service. This group, however, should not include occupational pension schemes, as they are simply legal entities set up by employers to provide pensions for their employees. To apply the levy on occupational pension schemes would simply amount to applying a levy on scheme members.

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Annex

NAPF Responses to Specific Questions set out in the Interim Report

Chapter 2: Who needs a generic financial advice service and how can they be engaged?

1. The analysis of UK adults according to their financial vulnerability represents a good starting point to assess the likely GFA needs and the ways of engaging different groups of people. The output of the pilots will help build upon the hypotheses in this chapter. What further pieces of evidence, or data sources, could be used to enrich the Review's understanding of the different groups who would benefit from GFA?

NAPF response: *The analysis contained in the interim report indicates that they have identified the main groups most likely to need access to GFA. In addition the NAPF's PENSIONSFORCE may be able to provide some additional evidence to help the review understand the different groups who might need the GFA service.*

2. Have we correctly identified the outcomes that a successful GFA service should aim to deliver?

NAPF response: *We support the principle that the service should be available to everyone, recognising that there should be effective targeting of those most in need of the GFA service.*

3. What sort of approach would be the most effective way of engaging consumers in the longer term?

NAPF response: *We do not believe there is a "one size fits all" approach to this problem. Through our experience with PENSIONSFORCE we recognise that different approaches are needed with different groups and these approaches need to be tailored to reach the different audiences.*

Chapter 3: Designing the National Approach

1. Have we identified the appropriate parameters for GFA? What evidence exists to support a case for a "deeper" service?

NAPF response: *We certainly recognise the need to provide a service that offers the individual signposting (guiding individuals to good sources of information).*

2. What sort of accreditation and training would be the most effective way of ensuring accuracy, quality and consistency of GFA information and guidance?

NAPF response: *We think a national training and accreditation scheme should be established, this should be done by the governing body. It is essential to ensure consistency and to ensure those delivering GFA meet the necessary standards.*

3. Views on the organisations which could play a role in the hybrid model, either on behalf of the main organisation under a contractual arrangement, or as a jointly labelled accredited partner?

NAPF response: *Under the hybrid model it should be possible for the new body to work with existing organisations providing GFA, this should be done under accreditation and those organisations or individuals wishing to play a role should be required to obtain the necessary accreditation. Once they have achieved the necessary accreditation joint labelling should be possible, this allows for brand development and recognition, as well as providing reassurance for the individual.*

4. How could commercial providers benefit from delivering GFA in their premises? For example, does the delivery of GFA in a commercial setting improve the levels of motivation to take action and execute a plan?

NAPF response: *It is important to provide the GFA services in an environment where the individual feels comfortable. This will vary, some would feel more confident receiving information through the workplace where they trust their employer, others might feel more comfortable in a bank etc. There are numerous surveys indicating levels of trust in relation to financial services, these might be helpful in identifying the most appropriate setting for GFA. It is also apparent that individuals are more likely to take advantage of a service which is brought to them than one which they actually have to seek out.*

Chapter 4: Governance

1. Should a GFA service be delivered by a new organisation, and if so should that organisation be a public body?

NAPF response: *We believe a new public body or a new division to an existing public body should be created to oversee the GFA service, set standards and award accreditation etc.*

2. Should a GFA service be delivered by an existing organisation – not necessarily a public body – with an established “brand” that is capable of being widened to encompass the objectives of a GFA service?

NAPF response: See answer to the previous question.

3. Which existing organisations should be considered candidates for scaling up capacity and expanding their brand to deliver the vision of GFA set out in this report?

NAPF response: We believe a new organisation should be established with a new brand. It is difficult to identify an existing brand that would be able to deliver a national service.

Chapter 5: Cost and Funding

1. Would a compulsory levy be the most appropriate way of raising the industry contribution to a GFA service; and if so, should it be a new mechanism or an existing one, such as the FSA levy?

NAPF response: A compulsory levy would ensure that everyone pays, however, care must be undertaken in focussing the levy on those that commercially benefit from the service.

2. Would it be practical for compulsory contributions to be made partly in kind, whether by provision of staff, accommodation or other resources, or as a direct provider of part of the service?

NAPF response: Without knowing exactly how the service is going to operate, and whether there will be a central body to run it etc. it is difficult to give an informed response to this question. However, in principle this should be possible. There are examples of how this currently operates – but care must be taken to avoid conflicts of interest.

3. What should be the coverage of any industry levy? In particular, should it reflect the value of business in non-regulated products, such as some consumer credit companies, which are likely to generate significant calls on a GFA service?

NAPF response: Overall, it would make sense to apply the levy to any company gaining a commercial benefit from the GFA service, so serious consideration should be given to including consumer credit companies, who don't currently pay any levy and might, as identified, generate significant calls on the GFA service.

4. Are there some firms that should be excluded from a compulsory contribution? In particular, should firms that:
- sell only non-regulated financial products; or
 - operate on a very small scale or for whom credit is just an ancillary activity; or
 - have only peripheral contact with those who are most likely to benefit from GFA; form part of the contribution base?

NAPF response: *We believe occupational schemes should be excluded as they are not commercial operations and would not commercially benefit from the GFA service. Applying a GFA levy to them would simply involve placing an additional cost on employers or, possibly, a cost that would fall on employees. It is also the case that they already pay a levy that funds pensions-specific financial advice provided by the Pensions Advisory Service (TPAS).*