PENSIONS AND LIFETIME SAVINGS ASSOCIATION

FINANCIAL ADVICE MARKET REVIEW: CALL FOR INPUT
THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION

"A NEW APPROACH IS REQUIRED TO ENSURE GOOD RETIREMENT OUTCOMES: ONE BASED ON SAFE HARBOUR SIGNPOSTING TO SOLUTIONS MEETING NEW QUALITY STANDARDS"

22 December 2015

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

OUR CONCLUSIONS AND RECOMMENDATIONS

The Financial Advice Market Review takes an important and wide-ranging look at the way in which consumers engage with and seek help for making financial decisions at various stages of their lives. Our response focuses on those aspects of financial decision making that affect retirement outcomes and in particular the new and more complex set of decisions to be made as retirement approaches and during retirement.

Financial advice alone cannot solve the dilemma of how to enable millions of people to benefit from the Pension Freedoms. Our response highlights the need for fresh thinking and, in particular, the replacement of an environment where savers are left largely in the dark about the specific options open to them to one where they are **signposted to quality-assured retirement income solutions**. While leaving savers with the right to decide how to use their own retirement pot this would ensure that the path of least resistance is much more conducive to good outcomes than today's effective default of taking cash.

The key points of our response are:

- This is just one of several consultations proposing interventions that propose to add a layer of support and protection for those seeking to access their pension savings (others include the FCA's CP15/30, the FCA's forthcoming Retirement Outcomes Review, proposals for new retirement risk warnings for trust based schemes). We are concerned at the piecemeal approach to this important debate around the inherent tension between consumer protection and the pension freedoms. This debate needs to be lifted above a debate on detailed regulation or interventions and to more broadly clarify what good looks like.

- Having said that, the Association applauds efforts to improve retirement outcomes, in particular initiatives designed to help those who wish to provide for an income in retirement;
- There is evidence not only of gaps in information, guidance, support and advice of all kinds but indications that the most informed and independent sources are not widely used by consumers;
- Guidance and regulated advice have an important role to play in navigating complex decisions and shaping outcomes and making those services more accessible and more affordable can only be a good thing;
- However, experience of the annuity market and early research of pension freedoms suggests that this will not be enough to achieve widespread good outcomes;
- The Association believes that a new approach is needed based on two components that take learnings from the lessons of automatic enrolment and which support the principles of pension freedoms. The approach would have two components:
    - **Safe harbour signposting by employers, trustees and others such as Pension Wise**;
    - **To retirement income solutions that meet a set of quality standards.**
- Granting trustees, employers and others a safe harbour in primary legislation would extend considerably the support available to those at retirement.
- The safe harbour would operate only where savers are signposted to one or more retirement solutions that met independent quality standards designed to deliver good outcomes for the majority of their members / customers[1].

[1] The PQM Board is currently consulting on standards for an in retirement quality mark: PQM (2015) *Developing a retirement quality mark* http://www.pensionqualitymark.org.uk/documents/31_rqm-consultation-paper-on-developing-a-retirement-quality-mark-november-2015.pdf

INTRODUCTION

The Pensions and Lifetime Savings Association has, since the introduction of Freedom & Choice, stressed that there is a need to examine the way in which individuals accessing their pensions under the new pension freedoms are helped and guided towards good outcomes. As such, we support the Financial Advice Market Review, in particular the proposals to focus on: advice in its very widest sense; those individuals with modest levels of wealth and income; saving into a pension; and the use of pension funds at and into retirement. These are also the sections of the call for input on which our response is focused.

This is just one of several consultations proposing interventions that propose to add a layer of support and protection for those seeking to access their pension savings (others include the FCA's CP15/30, the FCA's forthcoming Retirement Outcomes Review, proposals for new retirement risk warnings for trust based schemes). We are concerned at the piecemeal approach to this important debate around the inherent tension between consumer protection and the pension freedoms. This debate needs to be lifted above a debate on detailed regulation or interventions and to more broadly clarify what good looks like.

Our response is structured along the lines of the Call for Input paper and the questions posed, although we preface the main sections with some comments that the Association made in response to the FCA's scoping of next year's Retirement Outcomes Review, some general observations about the impact of the new Pension Freedoms and some findings from our latest consumer research (from the Understanding Retirement programme).

This is then followed by our views and research findings on:

- consumer needs and wants from financial advice;
- the nature, size and location of advice gaps;
- some of the options for closing the gap.

Q1 Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?

It would seem likely that both age and disability characteristics might present challenges for individuals in accessing financial advice, particularly in later life. The new pension freedoms bring new challenges and complexity to later life finances.

Prior to the new freedoms, decisions about pension provision beyond retirement age were largely limited to those with DC pensions to the few, typically more financially sophisticated and/or IFA supported consumers, in income drawdown. Those with DB pensions generally continued to receive a regular income from their scheme throughout their retirement while those with DC generally converted their savings to a lifetime annuity income that similarly paid out an income throughout retirement.

While new decisions and behaviour are not yet certain, it seems likely that a growing number of people beyond retirement age will need to remain engaged to a greater or lesser extent with their pension savings if they are to manage the risks associated with managing a DC pension fund. Over time, the characteristics of those exposed to investment and longevity risk in retirement and, potentially much later life, will change to include individuals without the support of an IFA, and with a wide range of capabilities and disabilities. Policy and regulation, both that associated with the delivery of regulated advice and that associated with broader information and support of customers or pension scheme members, may need to adapt over time to protect such individuals.

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PENSION FREEDOMS AND RETIREMENT OUTCOMES

The Association, in response to the FCA's call for views on the scope of its forthcoming Retirement Outcomes Review, put forward the following analysis of the changes to the risk landscape for pension savers at and in retirement. We have repeated some of this analysis below as a preface to some of the observations that we make in later sections of this response.

The introduction of pension freedoms has fundamentally changed the risk landscape for pension savers, both DB and DC. Prior to April 2015, risks for the saver were largely mitigated by a combination of rules and other protections that ensured that an individual could secure a lifetime income in retirement. Those who chose to take additional risks by taking an income through income drawdown were most at risk of failing to secure a lifetime income but even those risks were mitigated by rules around the amount of money that an individual could take unless they had secured a separate income elsewhere.

FIGURE 1: OUTCOMES AND RISKS FOR PENSION SAVERS BEFORE APRIL 2015

	Majority	*Minority*
Outcome	• Lifetime income secured through DB scheme • Lifetime income secured through purchase of an annuity	• Variable retirement income drawn from capped or flexible income drawdown (or short term annuity)
Risks	• Employer insolvency (DB) • Annuity provider insolvency • Failure to maximise lifetime income • Failure to provide for spouses income • Inflation (for DC)	• Investment volatility erodes fund • Taking too much income and running out of funds • High charges • High advice costs • Poor investment choices • Poor advice • Provider insolvency • Scams
Risk mitigation	• DB funding requirements and Pension Protection Fund (PPF) • Financial Services Compensation Scheme • PRA capital / solvency requirements (annuity providers) • ABI code of conduct • FCA disclosure and advice rules • Financial Ombudsman Service (FOS)	• HMRC rules on capped and flexible drawdown • Financial Services Compensation Scheme • PRA / FCA capital / solvency requirements • FCA disclosure and advice rules for drawdown • Transfer regulations • Financial Ombudsman Service (FOS)

NEW OUTCOMES AND RISKS

Since the introduction of the pension freedoms in April 2015, both the outcomes and the risks have become wider ranging and more complex and, as a result, the systems to mitigate those risks have also had to become more complex. However, ultimately pension savers can no longer be as well protected against some of the risks that they now face. What was an outcome for the minority of securing an uncertain income in retirement from drawdown products or being exposed to pension or other investment scams is now an outcome faced by the majority. Moreover, the outcome of withdrawing pension savings and trying to secure a retirement income from other savings and investment options is already happening, while for some pension savings have become a route to paying off debt or for immediate gratification.

FIGURE 2: OUTCOMES AND RISKS FOR PENSION SAVERS AFTER APRIL 2015

	Minority	*Majority*
Outcome	• Lifetime income secured through DB scheme • Lifetime income secured through purchase of an annuity	• Variable retirement income drawn from capped or flexible income drawdown (or short term annuity) • Variable income through other (non-pension) savings or investment vehicles (including property) • Paying off debt with pension savings • Withdrawing and spending pension savings before or in early years of retirement
Risks	• Employer insolvency (DB) • Annuity provider insolvency • Failure to maximise lifetime income • Failure to provide for spouses income	• Taking too much income and running out • Investment volatility erodes fund • Inflation erodes savings • Property market crash • High charges • High advice costs • High tax charges • Poor investment decisions • Poor advice • Provider insolvency • Scams
Risk mitigation	• DB funding requirements and Pension Protection Fund (PPF) • Financial Services Compensation Scheme • PRA capital / solvency requirements (annuity providers) • ABI code of conduct • FCA disclosure and advice rules • Financial Ombudsman Service (FOS)	• PensionWise guidance service • Advice requirements for DB to DC transfers • Retirement risk warnings • New regulatory requirements (not yet defined) for in-scheme decumulation • Financial Services Compensation Scheme • PRA / FCA capital / solvency requirements • FCA disclosure and advice rules for drawdown • Transfer regulations • Financial Ombudsman Service (FOS)

EARLY EVIDENCE OF BEHAVIOUR, OUTCOMES AND RISKS

Early analysis of recent research conducted for the Pensions and Lifetime Savings[2] Association reveals that in the first six months of freedoms, among the first cohort with access to the freedoms (estimated to number approximately 3.7 million[3])[4]:

- Around 100,000 have transferred from DB to DC (5% of those with DB not yet in payment in the age group concerned).
- Around 320,000 have taken some action on their DC (15% of those with DC) in the first six months of freedoms.
- Some have simply taken their tax-free cash and have left their remaining funds invested in their existing scheme or elsewhere.
- Among those with DC funds, while investment in drawdown has been the most popular option (around 80,000 people), many have taken cash beyond simply taking their tax free allowance (around 60,000), or purchased annuities (around 60,000).
- Those in a drawdown type vehicle may be using this as a temporary home before taking more lump sums or may be using it or plan to use it to generate a regular income.

While these outcomes may not be a sign of any detriment our research indicates that some do not fully understand the risks to which their decisions expose them and others may come to realise that their decisions were not fully informed:

- Of the pension savers aged 55-70 surveyed in April 2015 who expressed an interest in drawdown, 53 per cent believed that this option would offer them a guaranteed income in retirement, with a quarter believing there were no risks involved[5].
- Around one in three who accessed their freedoms in the six months from April 2015 found it harder than they expected while nearly half found the terminology difficult.

The research also highlights evidence of advice and support gaps (defined broadly by a lack of demand as well as a lack of access) among those accessing their pensions:

- Among those who have already accessed their pension, only 39% sought out financial advice and only 21% sought help from Pension Wise (the majority using the website only).

[2] Understanding Retirement wave II, unpublished results, survey of 2000 adults aged 55-70 with pensions not yet in payment at April 2015, survey conducted October 2015.
[3] NAPF estimate based on ONS population statistics and ONS Wealth & Assets survey table 6.8
[4] PLSA estimate based on ONS population data and ONS Wealth & Assets survey data
[5] Understanding Retirement Wave II: Breaking the Deadlock, Interim Finding

- 56% of those who can now access their pensions through the new freedoms and who have started to think about what they might do not plan to pay for regulated financial advice, 55% do not plan to contact their employer, 47% do not plan to contact Pension Wise and 40% do not plan to investigate options using the internet and 20% do not plan to contact their pension provider to discuss.
- Among the same group, 73% have not sought professional financial advice and 75% of these do not plan to.
- Those not taking advice cite a preference for making their own decisions, the cost of advice or a lack of trust in advisers as the main reasons or barriers.
- Around one in five of those who have used Pension Wise (mostly by accessing the web pages) did not find the service helpful.

The Association will be happy to share further research findings with the FCA and HMT as part of the review.

CONSUMER NEEDS AND WANTS FROM FINANCIAL ADVICE

In an efficient market, consumers would understand their needs or wants, have access to perfect information, shop around and compare product benefits and risks (either themselves or using trusted advisers) and ultimately make informed decisions. Firms would listen to consumer needs and competition would drive product features and pricing. The pension market has been shown, through successive reviews (FSA misselling reviews, Pickering 2002, Sandler 2002, Pension Commission 2003-2006, FCA thematic review of the annuity market 2013) and analysis of consumer and firm behaviour, to be far from efficient and lacking true competition. This position has been exacerbated for those reaching retirement by the introduction of Freedom and Choice.

Analysis of consumer behaviour at the point of accessing their pensions has, understandably, been confined largely to those individuals who purchased an annuity with their DC pensions at retirement. In spite of several market and regulatory interventions designed to change behaviour (for example changes to the wake-up pack and the emergence of a comparison website) and through that to improve outcomes, there was limited evidence of either. Shopping around didn't happen to an adequate extent:

- the use of advice was limited to approximately 35% of annuity purchases in 2013; and
- most individuals buying an annuity did so from the provider that they saved with (64% in 2009 and still 61% in 2013)[6].

In considering why individuals engage little with pension decisions, the Pensions Commission, having reviewed the evidence from behavioural finance theory and experiments, concluded that new interventions would be necessary to ensure that more people saved for their future and that they achieved good outcomes[7]. The interventions addressed consumer inertia, the cost of attracting and accessing customers and the cost of advice. The first part of the solution was to introduce automatic enrolment with an opt-out clause which provided both a positive way of dealing with inertia and removed the need for costly advice to encourage people to save for retirement. Another part of the solution was to influence competition for savers through the introduction of a low-cost, well-governed pension arrangement for employers to enrol their employees into; now known as NEST. This was then followed up by a set of Government policies designed to ensure that automatic enrolment schemes met minimum standards of governance and low charges.

The roll-out of automatic enrolment has to date been largely successful at encouraging saving (more than 5 million more are now saving for retirement through

[6] Wells (2013), Pension annuities: a review of consumer behaviour
[7] Pensions Commission Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission

workplace pensions[8]) and in reducing advice and investment costs and driving competition in scheme design and pricing. However, for many, the levels of contribution are likely to be inadequate to generate a comfortable replacement income and further incentives, support and encouragement may be needed to lift future contributions.

A similar set of interventions is now required to deal with much the same set of issues but focused on the decumulation or retirement income phase of the pension system. We explore elements of this approach – safe harbour signposting and quality standards for retirement income solutions - in the final chapter of this response.

[8] https://www.gov.uk/government/news/millions-more-saving-thanks-to-automatic-enrolment

THE NEED FOR ADVICE

People making complex and infrequent decisions, whether or not financial, generally look to others to help them find a good solution. Even before the pension freedoms, retirement income decisions for those with DC pensions fell into that category of decision.

As the analysis above indicates, and our research supports, most people reaching retirement do not seek professional financial advice. Furthermore, our earlier research has shown that most savers are unwilling to pay for advice: in our work place pension survey 57 per cent of the savers surveyed were not willing to pay anything at all for advice, with only 3 per cent willing to pay over £200[9].

The most popular sources of information and support at retirement among those aged 55-70 who had started to think about accessing their pension between April and September 2015 were[10]:

- The scheme or provider that the individual saved with during the accumulation phase (71% of those who had started to plan how to take their pension between April and September 2015 had either contacted or planned to contact);
- 49% had researched or planned to research on-line;
- 45% had spoken to or planned to speak to family & friends;
- 37% had contacted or planned to contact their employer;
- 34% had read or planned to read newspapers;
- 34% had or planned to contact Pension Wise;
- 31% had paid for or planned to pay for independent financial advice.

Among those who had already taken action between April and September, all of these response levels were considerably lower (for example only 7% had sought help from their employer) and the majority (around 60%) had sought help from only one source.

Q2 Do you have any thoughts on how different forms of financial advice could be categorised and described?

The Association has no strong views on the different descriptions of advice but would support attempts to align descriptions with consumer understanding and needs. Common sense tells us that consumers think differently about the word 'advice' than does the industry and the regulator. It is not clear that any of the expressions such as

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[9] The NAPF's *Workplace Pensions Survey May 2014* can be accessed at: http://tinyurl.com/WPSsept14
[10] Understanding Retirement wave II, unpublished results, survey of 2000 adults aged 55-70 with pensions not yet in payment at April 2015, survey conducted October 2015.

‘restricted advice’, ‘focused advice’, ‘simplified advice’ or guidance will resonate clearly with consumers.

Q3 What comments do you have on consumer demand for professional financial advice?

The Association agrees with the general thrust of the NMG Consulting analysis of demand. However, it is important to recognise that the role of advice for many of those joining pensions has been changed by the introduction of automatic enrolment and the parallel regulations surrounding qualifying schemes. In essence, the combination of behavioural nudges and quality standards have reduced the need for advice in the early phases of a pension journey.

Prior to the pension freedoms, the same was largely true of those reaching retirement. Although an active decision was required for those with DC savings, many followed the path of least resistance and, as noted above, the majority did not seek out advice. Those who did seek and pay for advice tended to be those with larger funds.

Q4 Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

As outlined above, research shows that, when making financial decisions, a range of sources are consulted.

Where purchases are relatively frequent and where sources of informal support and product information and comparisons are more readily accessible (such as car insurance) demand for professional advice is naturally lower.

None of these criteria is applicable for those now reaching retirement (or age 55) with DC savings. New social ‘norms’ have yet to be realised, friends and family will often not have the experience to inform the decision, the market is not yet fully formed, generic options at retirement have important implications for later life but some are not reversible and product information is complex and not easy to compare.

In such an environment, professional advice would appear to be the answer. Indeed for some, it may well be so, either because they have the profile of income and/or wealth that enables them to access the market or because they are lucky enough to work for an employer at retirement that provides access to advice (whether or not the employer pays for such advice). However, for the majority this is unlikely to be the case and our research supports the view that the cost of advice can be a barrier. For the majority, other sources of help and support will be critical.

Q5 Do you have any comments or evidence on the types of financial needs for which consumers may seek advice?

The FCA's analysis of the alignment of financial needs and demand for advice (in its broadest sense) would appear to be broadly supported by consumer behaviour as evidenced from market data and surveys. The analysis raises three issues that we would draw out:

- While not a regulated activity, the issues that face many about the interaction between state benefits and their finances would also seem to be an issue that would appear at the complex end of the spectrum and one which often drives the need for advice and support.
- Given our comments above about the role of automatic enrolment, we would question whether the decision to save in a pension is now quite so high up the list in terms of complexity. We would agree, however, with the placement of 'at retirement' decisions being high up that list.
- The analysis appears to stop short at retirement, whereas the new pension freedoms imply a need for help way beyond the point of making a decision on whether to buy an annuity, take the cash or go into drawdown, in particular for those in this last group.

Q6 Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

By definition, any consumer segmentation model tends to be a static basis for viewing needs and behaviour. Moreover, segmentation models are typically built for a particular purpose and don't always serve other purposes well. It is not clear that the model described here is particularly suitable to understand the needs for advice and support.

People's lives and often their financial needs evolve and change and some of the most important decisions are made at the point of transition. Those transitions, not the segment they are in before or after, often drive the need for advice and support. For example:

- Decisions about starting a pension arise most often in that transition between studying (perhaps those in the 'living for now' segment) and beginning a career (perhaps those in the segment 'starting out');
- Decisions about debt can be most important in the transition between work and unemployment which may also imply a shift between FCA segments;
- Mortgage decisions are often aligned with lifestage transitions such as marriage, career developments, becoming parents which may also lead to individuals moving between FCA segments;
- At retirement and in retirement decisions also tend to align themselves with transitions between segments. Someone who sits in the 'affluent and ambitious' segment may move into either the 'retired and on a budget' or

'retired with resource' segment depending upon the decisions they make at retirement.

- Further transitions associated with health, disability and cognitive ability may also drive the need for advice and support in later life, particularly for those needing to make pension, benefit, housing or investment decisions (and particularly those with multiple decisions to make).

There may be other important financial decisions that not only are made at important transition points (such as divorce, loss of a partner) but which can also influence the future segments that an individual lands in. A completely static segmentation that does not recognise the importance of life transitions and the fluid nature of people's lives does not appear to be adequate as a tool for exploring advice needs. The Association recommends that any analysis of consumer needs focuses on transitions as well as static characteristics.

Q7 Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

Focusing on long-term savings decisions and, in particular, pensions, the segments that are most likely to drive the need for advice and support are those that include individuals near to, at, or in retirement. However, recognising the points made above in response to Q6, a further focus on the transitions that trigger the need for advice is required.

Q8 Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

The analysis conducted here by the FCA appears to be rather simplistic in nature. It is not clear that the **need** for advice and support is strongly correlated to income or wealth, although we would agree that the **demand or ability/willingness to engage with** regulated advice is. Those on low incomes may have complex needs and decisions to make, often interacting with the benefit system. Those with small pension funds may need advice as much as, or perhaps more so, than those with larger funds. However, it is almost certainly the case that the ability to deliver advice and support to all requires a cross-subsidy from those with money to those without, either through taxpayer / central Government funding or through some other mechanism.

Q9 Do you have any comments or evidence on why consumers do not seek advice?

The FCA's analysis includes most of the reasons why individuals say that they do not seek professional advice. The cost, trust and difficulties in accessing advice feature commonly in the Association's and others' research.

However, another factor may be at play. As the suppliers of professional advice have focused increasingly on the more affluent elements of society and the suppliers of advice have themselves been drawn from the more professional and affluent sectors of society, it may also create an unintended vicious circle of exclusion. Those not obviously (to themselves) in the target market may take it as given that professional advice is not for them; something that would not have been the case when information and support was provided by the home service companies such as Pearl and Prudential in most of the 20th century.

ADVICE GAP(S)

The existence of advice gaps is clearly a function of both demand and supply-side issues. As discussed above, not all consumers demand or are willing to seek out guidance and advice while not all guidance and advice services are accessible to all consumers. The Association has little experience of the supply and economics of advice, although its members (principally larger employers with a geographically concentrated workforce) often make advice available in the workplace to those approaching retirement. No detailed analysis has been undertaken of this, although employers rarely fund the full regulated advice process and individuals are required to pay directly for any personalised advice.

Q10 Do you have any information about the supply of financial advice that we should take into account in our review?

The Association's members (whether funds or employers) are drawn largely from the larger employers and pension schemes in the UK. Many of these larger employers (rather than the pension schemes themselves) provide current employees (and therefore active members of the employer's pension schemes) with access to retirement planning seminars and/or personal advice through relationships with independent financial advisers or broking services.

Research undertaken by the Association among its fund members in April 2015 shows the type of support afforded to employees / scheme members at or near retirement. In spite of the freedoms, annuity broking remained the most common support (offered by 54% of respondents) followed by collective retirement seminars (43%) with 13% providing access to financial advice (but paid for by the employee) and 10% funding financial advice.

The pension scheme itself, through its administrators, delivers information to the member about their pension, the options available at retirement and, now, the services of Pension Wise.

The workplace can be an efficient place to deliver both communal guidance and planning sessions as well as individual advice. However, by definition, it reaches only those currently employed by the company. Deferred members of pension schemes, particularly those who are no longer working but not yet retired and taking their pension, do not tend to have the same level of access to support from their past employer or the pension scheme. Some of this issue is being addressed by the emergence of on-line support to pension scheme members, although anecdotal evidence suggests that usage of this support remains low.

Furthermore, at the point of accessing pension freedoms, many older individuals will no longer be in work. Our research among the first cohort aged 55-70 with a pension not yet in payment suggests that 20% of this group already consider themselves to be fully retired and around another 40% are either not retired but also not working or are working part-time[11]. This analysis alone would suggest that supplying 'at retirement' advice on retirement choices may not have sufficient reach, even if individuals engage with the advice, are willing to pay for it or it is in some way subsidised. Moreover, if advice may be required into retirement, the workplace becomes increasingly irrelevant to that relationship.

Q11 Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

The Association has no data to add to the evidence base.

Q12 Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

The Association has limited experience of the role of technology in delivering advice. However, technology is playing an increasing role in providing information and retirement planning tools to members of pension schemes.

Q13 Do you have any comments on how we look at the economics of supplying advice?

Q14 Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

Q15 Which consumer segments are economic to serve given the cost of supplying advice?

The Association has no experience or evidence to add to the analysis underlying these three questions.

Q16 Do you have any comments on the barriers faced by firms providing advice?

Some of the barriers outlined, while applying to regulated adviser firms, are also issues for employers and occupational pension schemes. The lack of regulatory clarity

[11] Understanding Retirement wave II: baseline research April 2015, working status, 1041 sample of UK adults aged 55-70 with a pension not yet in payment

around the new pension freedoms and the uncertain regulatory risks and potential liabilities can inhibit employers and schemes from delivering anything beyond factual information to pension scheme members and employees.

Q17 What do you understand to be an advice gap?
Q18 To what extent does a lack of demand for advice reflect an advice gap?

The Association agrees with the Review's definition of an advice gap 'any situation where consumers cannot get the form of advice that they want on a need they have at a price they are prepared to pay'. Within this definition we would include not only advice in its regulated form but other forms of support and guidance that can help consumers achieve good outcomes.

However, we would extend the definition to include circumstances where consumer demand is low, not only because the benefits of advice are not fully valued but also where the complexity and consequences of decisions are not fully understood.

Q19 Where do you consider there to be advice gaps?

Notwithstanding the points made earlier in this response about the FCA segmentation model, we would broadly agree with the proposed framework. We would make the following additional points:

- Decisions about retirement income and other options (such as taking a pension as a cash lump sum or doing nothing) are not limited to a single event and may need to be made several times over during both later working life and in the transition towards 'full-time retirement'.
- Decisions about saving into a pension include decisions, for some, about how monies should be invested and whether and how to increase, decrease or even stop making contributions.
- Decisions about investing may also involve decisions about disinvesting or taking an income from investments (other than pension)

Q20 Do you have any evidence to support the existence of these gaps?

In the retirement market, it remains very early days to evidence the existence of advice gaps as defined above. However, there are some early indications from our research on both the more narrow definition of the advice gap and the wider definition predicated on low demand and a wider definition of advice.

Q21 Which advice gaps are most important for the Review to address?

Given the lack of a fully formed market, the complexity of the decisions to be made and the potential for large scale and high impact consumer detriment, the

Association believes that the ‘advice’ gap at and in retirement for those accessing their pensions should form an important part of the review.

Other aspects of finances that require attention in relation to the advice gap and consumer engagement are the slightly earlier phases of pension saving as individuals approach their retirement years as well as decisions relating to the funding of support and care in later life.

Q22 Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

Yes, although the last aspect should cover all of the decisions made about pensions at retirement and managing an income throughout retirement (whether or through a pension scheme or related products).

Q23 Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

Yes, although the threshold for this may prove to capture a very significant proportion of the adult population. The exact thresholds do not matter for defining policy – the inability to access the information, guidance and advice needed should determine the focus, not a precise income or wealth threshold.

OPTIONS FOR CLOSING THE ADVICE GAP(S)

We have again focused our comments below on at- and in-retirement pension decisions.

If the end goal is, in an imperfect market, to help individuals make good (but not necessarily perfect) retirement decisions that suit their needs (rather than their wants), the generic options available to society to help achieve that outcome are:

- INFORM AND EDUCATE: To regulate the market in a way that:
    - encourages consumers to engage actively with their decisions, seek out and analyse information about the options and the market and to shop around for themselves, and
    - facilitates the supply of appropriate information, guidance and support for decision making at an appropriate price.
- ADVISE: To regulate the advice market in such a way that both the demand for and supply of advice grow or are mandated; thereby providing personal advice suitable to individual needs;
- NUDGE: To shape the market and decision making in a way that encourages the supply and demand for solutions that meet quality standards and to use behavioural traits in a positive way to steer individuals towards solutions that limit the risks to the individual but still afford flexibility in retirement;

Our analysis of the current market for support at the point of retirement and into retirement under the new pension freedoms suggests that:

- the first of these options (inform and engage), while laudable, will take many years to be realised during which time some unsuitable social norms might develop and many may suffer detriment;
- the advice gaps are similarly unlikely to be filled through a greater or modified supply of regulated advice and that any attempts to mandate advice are likely to prove unpopular;
- to avoid several years of uncertainty and poor outcomes for those retiring, a new approach is required that learns lessons from behavioural economics and the implementation of automatic enrolment.

Employers, trustees and providers can all play an important role in shaping outcomes. Moreover, these are the sources that most people retiring turn to most commonly. Using their expertise in a positive way could improve outcomes.

However, some tell us that they (and their lawyers) are reluctant to engage in activity which may be considered to be personal advice, either by the courts or the regulator. An atmosphere of risk aversion exists that prevents them from providing help and support that could be considered to approach the regulatory boundary. This stems from many years of pension misselling, a fear of litigation, Ombudsman cases going against schemes or employers, and a real or perceived lack of clarity around what constitutes advice.

In order to reach out to and support those in the first and third groups described above, a new approach is required. Granting trustees, employers and others a safe harbour in primary legislation in certain circumstances would extend considerably the support available to those at retirement.

The safe harbour would operate only where savers are signposted to one or more retirement solutions that met quality standards designed to deliver good outcomes for the majority of members / customers. This would not be a personal recommendation and the design of the solutions would have to allow flexibility and transferability for the saver. Trustees, employers and others would also have to demonstrate that they received no benefit from the scheme or provider to whom they signposted. Different rules would be required where providers signposted to products in their own group of companies and where a clear commercial incentive was at play.

As part of its initiatives to drive forward quality standards in pensions, the Pension Quality Mark has issued a consultation on standards for retirement income solutions[12]. This consultation sets out an initial view on how those standards may emerge.

We call on Government and regulators to work together with the pension sector to develop and refine this solution.

Q24 Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

Clarity over what does and does not constitute regulated advice continues to be somewhat elusive in spite of regulatory guidance on the matter. As a result, trustees, employers and providers of services to pension schemes tend to err on the side of caution and steer well clear of anything that might be deemed by the regulators or the courts to be personal advice. This prevents those organisations closest to members in the accumulation phase from providing anything more than factual information at the point when members most need help, particularly post the introduction of pension freedoms. Members of pension schemes are therefore left with only three pathways to making a decision:

- Rely on their own research abilities among family and friends, on-line sources and websites such as Pension Wise, MAS or TPAS and the information provided by their scheme. Some may be able to navigate their

[12] PQM (2015) Developing a retirement quality mark http://www.pensionqualitymark.org.uk/documents/31_rqm-consultation-paper-on-developing-a-retirement-quality-mark-november-2015.pdf

way towards a good solution but others may fall by the wayside during the process and choose considerably sub-optimal solutions;

- Find a financial adviser who will deliver a personal recommendation and help effect any transactions necessary;
- Make a decision based on no research but one informed by behavioural biases such as present bias or inertia. Taking the cash or doing nothing might appear to be the most attractive or the easiest solutions for this group; outcomes that may or may not prove good for the individual.

The Association's research suggests that, of all of the sources of information that retirees call upon, their pension provider or scheme is the most common (71% % of those taking action in 2015)[13]. Faced with under-demand for formal advice, an undersupply of advice and, for many, expensive advice services, an alternative approach is required.

Q25 Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?

The development of safe harbour signposting in the UK would have to be considered in the light of EU legislation. However, we have not undertaken an initial assessment here.

Q26 What can be learned from previous initiatives to improve consumer engagement with financial services

By far the most important lesson learned by the pension sector in the past 10-15 years is the power of aligning market interventions to work with rather against the norms of consumer behaviour. As the findings of the Pension Commission suggested, and the implementation of their proposals has endorsed, good outcomes can be achieved by deliberately and carefully designing the path of least resistance. In this way, acquisition costs are reduced, scale investment, administration and communication solutions can be offered that should deliver a reasonable return on investment and people can be encouraged to do the right thing without too much effort and cost. Designing a safe harbour for signposting allied to quality standards for retirement income solutions would build on this learning.

Q27 Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

The Association believes that lessons can be learned from a number of overseas markets including Australia, USA and some European countries about the behaviours

[13] Understanding Retirement wave II, unpublished results, survey of 2000 adults aged 55-70 with pensions not yet in payment at April 2015, survey conducted October 2015.

that emerge when pension freedoms are at work. Australia and the US are now looking at whether default pathways and/or heuristics can be designed for those with DC savings that will help deliver more sustainable incomes in retirement. Options which incorporate standards around product design should be considered.

Q28 What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

The design of a safe harbour pathway to well-designed retirement income solutions could be built on the evidence from behavioural economics. It would accept that behavioural biases will inevitably lead to the use of the path of least resistance and design that path in a way that leads to a good outcome.

Q29 To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice?

The safe harbour described above would apply only where there was not a personal recommendation. The safe harbour would need to extend to the courts (if possible) and Ombudsman decisions as well as FCA regulation. Safe harbour for regulated advice on long-term pension decisions are incompatible.

Q30 Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

The safe harbour would apply to support given to individuals seeking to access their pension after age 55. It should not be extended to a personal recommendation.

Q31 What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

Our outline proposals on safe harbour would provide protection to consumers in two ways:

- Firstly, it would apply only savers are signposted to schemes that meet independent quality standards that included strong governance of the arrangements;
- It would not apply to commercial arrangements or inertia selling. .

Q32 Do you have evidence that absence of a longstop is leading to an advice gap?

Q33 Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms?

Q34 Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?

Q35 Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

Q36 Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

Q37: **What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?**

Q38: **What do you consider to be the main consumer considerations relating to automated advice?**

The Association has no comments on these questions.

Q39 What are the main options to address the advice gaps you have identified?

Q40 What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

Q41 What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

See our comments above.