

**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

**PUBLIC FINANCIAL GUIDANCE: A RESPONSE BY THE PENSIONS AND LIFETIME
SAVINGS ASSOCIATION**

**“THE ASSOCIATION WOULD
SUPPORT THE INTEGRATION
OF TPAS AND PENSION WISE
AS THE MOST EFFICIENT
SOLUTION.”**

22 December 2015

INTRODUCTION

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.

In a world of complex financial choices it is vital to ensure that the right support structures are in place to help consumers make good decisions. Many financial judgments are challenging and have far-reaching effects and trade-offs. Key financial decisions - taking out a mortgage, handling debts or managing an income in retirement - require information and support, often over a period of time. Public financial guidance can serve as a crucial first port of call for consumers as they begin to assess their options. Importantly, it offers an independent and objective source of information in markets where asymmetry prevails.

This holds true particularly in the realm of pensions. The introduction of pension freedoms in April 2015 has complicated further an already challenging retirement landscape. The Government's guidance service, Pension Wise, and the Pensions Advisory Service (TPAS), have been serving as an important source of information for many consumers as they navigate this new landscape. However, it is still early days for the service and there is much more that can be done to develop it. The Association's response to this consultation will focus on the questions surrounding the future of Pension Wise and TPAS, as well as commenting on some of the broader issues surrounding financial guidance.

Our key recommendations are as follows:

- ▶ Public financial guidance is only one part of the picture in improving market efficiency and addressing asymmetry of information and needs to be examined in line with advice, signposting and quality-assured products in order to secure 'good' outcomes for savers in the new world.
- ▶ More data on the effectiveness and efficiency of Pension Wise is required to fully evaluate how the service is operating in practice.
- ▶ The Association would support the integration of Pension Wise and TPAS as an efficient long-term home for Pension Wise. In this scenario, Pension Wise would still remain a discrete entity but TPAS would coordinate its website, phone appointments and face-to-face services, whether outsourced or integral to the new organisation.

- ▶ If Pension Wise and TPAS were integrated, funding should come from all stakeholders in the workplace pension sector including providers, schemes, service providers, advisers and asset managers. As such, current funding streams should be maintained but brought together.

HELPING CONSUMERS ACHIEVE GOOD RETIREMENT OUTCOMES IN THE NEW WORLD

The complexity of pensions is well-documented. In the old world, an individual's engagement with pension saving would generally be limited to joining a pension scheme and, for those with DC, choosing an annuity provider at retirement. The FCA's Retirement Income Market Study in 2014 showed how weak the demand side of this market was, with 60% of consumers not exercising their option to switch and instead purchasing an annuity from their existing provider¹. The introduction of pension flexibilities has fundamentally changed this retirement journey. Instead of facing a single decision about where to purchase an annuity from, individuals are now contending with new decisions and risks around encashment and fully flexible drawdown. These new freedoms are to be welcomed. However, the changing landscape has brought a corresponding change in the means of helping people manage a retirement income. As such, there is a need to examine the way in which individuals accessing their pensions under the new freedoms are helped and guided towards good outcomes.

Key to this will be greater clarity from government and regulators on what 'good' outcomes look like in this new world. Once this has been established, the Association believes that a new approach is required to ensure these outcomes are met: one based on safe harbour signposting to solutions meeting new quality standards. Policy currently places too much emphasis on the ability of individuals to make choices in a market when studies have repeatedly shown that consumers are unwilling, or unable, to do this. A solution is required that allows people to access the freedoms but makes the line of least resistance the right thing for most people most of the time. These lines of argument will be developed further in our responses to the FCA's Financial Advice Market Review and CP 15/30.

Nonetheless, it is clear that free-to-client, impartial guidance will have a central role to play in helping consumers achieve good outcomes. We believe that accessing independent guidance should be the norm and our members have been actively signposting their members to Pension Wise in support of this. But guidance is just one component in the mix. Advice, quality-assured and readily comparable products which consumers can have confidence in, and strong signposting by trustworthy agents such as trustees to find them form the other key branches.

¹ FCA Thematic Review of Annuities February 2014 p.12

In this, we believe Pension Wise could go further. For individuals reaching the end of their Pension Wise appointment there is no obvious handover point for those wishing to take advantage of the new freedoms and access their pension savings. In the case of automatic enrolment, The Pensions Regulator (TPR) houses a list of schemes which have achieved master trust assurance and which employers can refer to when meeting their automatic enrolment duties. No similar portal exists for consumers accessing pension freedoms. As such, we believe Pension Wise as a source of independent and trusted information should have a role in signposting consumers to quality-assured products, much like TPR does with automatic enrolment.

The Association is clear that the provision of guidance should not be examined in isolation, but should be built into the wider picture of achieving good retirement outcomes. As we said in our response to the initial scoping of the FCA's Retirement Outcomes Review, the market for retirement income solutions, advice and wider support is not yet fully formed and the interaction between outcomes available to consumers, evolving consumer and market behaviour and the help afforded to savers at retirement or when they seek to access their funds is one which is likely to require attention for many years to come.

THE FUTURE OF PENSION WISE: DELIVERY, TARGETING & FUNDING

Public financial guidance for retirement decision-making is currently delivered through three organisations: Pension Wise, TPAS and the Money Advice Service (MAS). The Association supports the government in reviewing the provision of this guidance. It is right to explore how it is best targeted, delivered and funded in the interest of consumers most in need of the service.

The starting assumption outlined in the consultation, that consumers often attach a greater value to 'government backed' guidance in their financial decision-making, is supported by the findings of the Thoresen Review of financial advice in 2008. This study found that levels of consumer trust in both the industry and government, along with concerns around impartiality, would render each as an unsuitable sole provider of money guidance. However, government backed guidance was seen as a strength by consumers². This conclusion was also supported by research conducted by the Resolution Foundation in 2006 which found that provided the independence was maintained, 80% of people interviewed would support a public-private partnership backed by the Government and the financial services industry³.

A central theme of the pensions section of the consultation is assessing the delivery, targeting and funding of Pension Wise, as well as identifying a long-term home for it.

² Thoresen Review of Generic Financial Advice: final report March 2008 p.71

³ The Resolution Foundation Closing the Advice Gap: Providing Financial Advice to People on Low Incomes 2006 p.4

Evaluating both the governance structures for and delivery of Pension Wise is challenging at this point in time. It is welcome news that over 40,000 guidance appointments have been delivered by the service since April with 89% of users reporting being satisfied with their experience. We are also pleased that government has committed to make core Pension Wise data available on the gov.uk performance platform and to update it regularly, including cost per completed appointment. However, it remains unclear how effective the service has been in supporting good outcomes. The government's commitment to procure external research for Pension Wise in order to understand what users do following an appointment with the service and how much the appointment improves their understanding is a good first step. But more needs to be done to understand how the service is operating in practice.

The Association has been conducting its own research, *Understanding Retirement*, which has been examining scheme and consumer responses to the pension flexibilities as well as exploring member attitudes at and in retirement. Our findings on Pension Wise revealed that of those who had accessed their pensions between April and October 2015, only 21% had used Pension Wise.

Of those who had accessed the service, 66% had just looked at the website, 24% had called the helpline and 10% had undergone a face-to-face appointment with an adviser. Consumers who reported not using Pension Wise appeared to be unaware of the service or of the belief that they did not need to use it. Of those who were investigating taking their pension soon, nearly half (47%) had no plans to seek guidance through Pension Wise⁴.

It is clear from these findings that raising awareness of the public financial guidance provided by Pension Wise should be prioritised. Nonetheless, data that also evaluates the effectiveness of the service is required in order to fully assess the performance and operation of the service. With the fundamental shift of the pensions landscape this year, it is natural that new social norms among consumers will take time to develop. This will inevitably affect take-up. As such, it may well be too early to judge the service on the basis of take up. However, there is still scope to evaluate whether the information and help that is being offered is effective from a saver perspective.

The Association would like to see a proper evaluation of the effectiveness and efficiency of Pension Wise. Without this, it will be impossible to monitor the impact of this important service and understand how it is operating in practice.

In terms of the targeting of the service, the Association has concerns over the extension of Pension Wise to those aged between 50 and 55. While we recognise the importance of encouraging consumers to commence their retirement planning early, there is a risk that offering guidance to individuals of this age will encourage individuals in this age group to view their pension more as a short-term source of

⁴ PLSA online survey of (1,979) adults aged 55-70 in the UK with a pension not yet in payment conducted in October 2015.

funds rather than a sustainable retirement income for later life. In our view, TPAS is already equipped to answer a broad range of pension queries from individuals of any age, as well as resolving any disputes.

A LONG TERM HOME FOR PENSION WISE

The Association would support the integration of Pension Wise and TPAS as the most efficient solution for the future of the Pension Wise service. TPAS represents a centre of knowledge and excellence on a highly technical and complex area of personal finance. As such, they would be equipped to co-ordinate the day to day operation of Pension Wise, allowing TPAS to manage website, phone-based guidance and one-to-one appointments through delivery partners such as Citizens Advice. This would build on the knowledge and expertise already contained in TPAS to ensure the service is consumer-focused and presents the best offering possible. It would also help ensure consistency between the three channels. It is clear to us that the delivery of Pension Wise must be kept separate from TPAS' other services. This would respect the discrete commitment for independent, free to the consumer financial support made by the government in the guidance guarantee. In terms of each organisation's branding, it would make sense to keep existing branding separate to allow TPAS to capitalise on its already established reputation.

If Pension Wise and TPAS were to be integrated, the Association is clear that funding should come from all stakeholders in the workplace pension sector including providers, schemes, service providers, advisers and asset managers. As such, current funding streams for Pension Wise and TPAS, paid by an FCA levy on certain FCA-authorized firms and a DWP levy on pension schemes respectively, should be maintained but brought together. As part of a broader discussion, we would advocate consideration of moving the levy on occupational pension schemes to an assets basis as opposed to being based on membership.

In terms of rationalising government provision of public financial advice, the Association supports the Government's view that intervention in the guidance market should be targeted directly towards meeting consumer need and should complement intervention which is available from other providers. The government should focus on providing guidance where any of the following four criteria are present: complexity, conflicts of interest, cross-selling or particular risk of scams. Beyond this, the market should be expected and encouraged to deliver.

The response below has been structured around the questions posed in the consultation that focus on pensions. The Association has not answered questions relating to debt advice or broader questions on funding.

ACCESS TO PUBLIC FINANCIAL GUIDANCE

Question 1: Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?

As previously set out, we will restrict our comments to public financial guidance in the pensions sphere. The Association would suggest that two particular groups might encounter difficulties in engaging with public financial guidance: those with disabilities and the elderly who might have diminished capacity or face digital exclusion. With the introduction of a secondary annuity market in 2017 we are conscious that Pension Wise will increasingly be dealing with a much older clientele who might face particular difficulties in accessing guidance. Government should be mindful of the needs of these groups when designing the structure and delivery of public financial guidance.

OPERATION OF PUBLIC FINANCIAL GUIDANCE

Question 5: What additional, or alternative functions and structures could a statutory body put in place to effectively coordinate public financial guidance on pensions?

As discussed, we believe more data on the functioning of Pension Wise is required in order to understand how effectively the service is operating. While information on take-up is important, arguably a bigger priority is in ensuring the support that is being offered is effective from a saver perspective.

This is a necessary first step before examining whether any additional or alternative functions or structures are required to coordinate public financial guidance on pensions.

Question 6: How could the organisational delivery of public financial guidance on pensions be improved to provide greater efficiency?

The Association would support the integration of Pension Wise and TPAS as the most efficient solution for the future of the Pension Wise service. TPAS represents a centre of knowledge and excellence on a highly technical and complex area of personal finance. As such, they would be equipped to co-ordinate the day to day operation of Pension Wise, allowing TPAS to manage website, phone-based guidance and one-to-one appointments through delivery partners such as Citizens Advice. This would build on the knowledge and expertise already contained in TPAS to ensure the service is consumer-focused and presents the best offering possible. It would also help ensure consistency between the three channels.

It is clear to us that the delivery of Pension Wise must be kept separate from TPAS' other services. This would respect the discrete commitment for independent, free to the consumer financial support made by the government in the guidance guarantee.

In terms of branding, it would make sense to keep existing structures in place to allow TPAS to capitalise on its already established reputation.

Question 7: What scope is there to rationalise the funding of public financial guidance provision on pensions?

If Pension Wise and TPAS were to be integrated, the Association is clear that funding should come from all stakeholders in the workplace pension sector including providers, schemes, service providers, advisers and asset managers. As such, current funding streams for Pension Wise and TPAS, paid by an FCA levy on certain FCA-authorized firms and a DWP levy on pension schemes respectively, should be maintained but brought together.

As part of a broader discussion, we would advocate consideration of moving the levy on schemes to an assets basis as opposed to being based on membership.

MONEY AND FINANCIAL CAPABILITY

Question 8: Are the statutory objectives underpinning MAS the right ones?

Yes.

Question 9: What role, if any, should a statutory body have in providing general money guidance?

We broadly support MAS' role in providing generic money support. However, we would suggest that due to their specialism and signposting to other agencies and organisations, pensions and retirement issues should be directed to TPAS.

Question 10: What role, if any, should a statutory body have in supporting financial capability?

The Association supports MAS' in its role in increasing financial capability and promoting its financial capability strategy.

RATIONALISING GOVERNMENT PROVISION OF PUBLIC FINANCIAL ADVICE

Question 12: How do you think that the Government could best complement voluntary sector provision of financial guidance?

The Association supports the government's view that intervention in the guidance market should be targeted directly towards meeting consumer need and should complement intervention which is available from other providers. It would not be an efficient use of government funds to duplicate provision which already exists in the market. As was recognised in the Thoresen Review of Financial Guidance, money guidance can be delivered most cost effectively in partnership with existing service providers. This study envisaged a central organisation, setting policy and strategic goals for the service, managing relationships and working with delivery partners.

However, impartiality of the guidance delivered is key. Alongside this, the complexity and information asymmetry that exists in pensions suggests that the government cannot rely on the market alone to deliver guidance. Doing so could result in an incomplete, fragmented and inaccessible guidance service. As such, the Government should intervene to provide guidance where guidance cannot be met economically by other providers, or where impartiality or where there is a risk that impartiality could be compromised.

In summary, the Government should focus on providing guidance where any of the following four criteria are present: complexity, conflicts of interest, cross-selling or particular risk of scams. Beyond this, the market should be expected and encouraged to deliver.

Question 13: Do you think that the Government could offer a more integrated public financial guidance service to consumers throughout their lives? How do you think this could be achieved?

It is the Association's view that government should not try to overreach in this area. It is not clear to us that there is demand for holistic provision of financial guidance across an individual's lifecycle, or that this would be an efficient use of funds. We have concerns regarding the proposed government-backed voucher scheme referenced in the consultation paper. As previously argued, the government should seek to review the market and fill any gaps only where the four conditions listed above are present.

As the consultation paper recognises, there is already widespread use of referrals and hand offs in the sector, which we believe to be working well. If TPAS and Pension Wise were to merge, care would need to be taken to ensure that MAS did not duplicate the functions of this new body. We also recognise the risk of reducing innovation inherent in imposing excessive integration on the sector.

Question 15: Are the suggested core services the right ones? Should any core services be added?

The Association is supportive of the two core services specified in the consultation document: provision of the guidance guarantee and co-ordination of debt advice

appointments. In addition, we would argue that guidance around long term care provision and funding could be added to the list of core functions.

Question 16: Are the suggested principles the right ones to underpin the statutory provision of the core services? Should any principles be added or removed?

The Association is supportive of the principles specified to underpin the provision of statutory guidance. In particular, we would agree that statutory guidance should be consumer friendly, rationalised and efficient.

Question 17: Do you think that statutory provision should be restructured to improve the guidance service to consumers, and if so, how?

See answer to Question 6.