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At-retirement financial advice in the workplace

Executive summary

At-retirement financial advice in the workplace

This report has been commissioned by LV=

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The qualitative research contained in this report was conducted by Bdifferent, a company specialising in financial services research.

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Executive Summary

This report 'At retirement advice in the workplace' draws heavily on new qualitative research conducted by Bdifferent, a company specialising in financial services research. This research explores employers' attitudes around the provision of financial advice and, consequently, interviews were conducted with a relatively small number of employers. The findings are therefore indicative rather than representative.

With the removal of limits to how individuals can access their pension savings there has been an increased focus on the role of financial advice

Despite this, the provision of financial advice and education in the workplace has decreased.

The Financial Advice Market Review (FAMR) has identified the workplace as presenting an opportunity to help more people access financial advice

It has also indicated that the Financial Conduct Authority (FCA) will work with employers to increase uptake of advice.

Her Majesty's Treasury (HMT) is exploring two new initiatives in connection with these tax measures.

Employers can currently arrange financial advice without incurring tax or National Insurance contributions on up to £150 of the cost. Individuals are also able to withdraw money to pay for advice from their Defined Contribution (DC) pension funds, without incurring tax on this, but this advice must relate to the fund the money is paid from.

The two initiatives are:

- Increasing the tax exemption around employer-arranged pensions advice from £150 to £500.
- Introducing a Pensions Advice Allowance which allows DC savers to withdraw up to £500 from their DC pension funds without incurring a tax penalty, provided that this amount is used to purchase pre-retirement advice.

It may be possible for the tax exemption for employer-arranged advice to be used in conjunction with the Pensions Advice Allowance.

The view that employees become interested in pensions as they approach retirement suggests that employees would be interested in employer-provided financial advice from age 55

While employers indicated that employees are not broadly interested in pensions, they suggested that they become more interested as they approach retirement. This is supported by other research that found that 71% of employees think that employers should provide support around retirement income decisions.[1] This suggests that employees would value employer-provided financial advice although research with employees would be required in order to assess their preferred structure for the advice.

It may be challenging to involve smaller employers, where there is no named person responsible for pensions, in providing financial advice in the workplace

Some employers, who were typically smaller and with blue-colour workers or high staff turnover, were averse to allowing their employees access to advice in work time. This contrasts with some of the successful financial education programmes described in Chapter 1 of this report, where some employers allow staff to take part during working hours. In the future, there may be scope for scheme providers themselves to play a larger role in helping employees to access their pension savings.

Employers were very supportive of the Pensions Advice Allowance

Broadly, employers preferred the option of employees paying for advice. They indicated that they would promote this to employees. Employers' questions relating to the logistics highlight issues around how an individual's use of the Pensions Advice Allowance would be monitored.

Those employers who were interested in the £500 tax exemption for employer-provided advice typically already provided access to advice

As this is the case, the £500 tax exemption may act, at least in part, as a reward rather than an incentive for these employers. However, in many cases, not all employees access this advice. Therefore, this may lead these employers to increase the amount of advice that they make available to employees and to publicise this advice further to their employees

In addition, as this and other policies, such as automatic enrolment, become embedded, greater numbers of employers may be interested in providing financial advice. FAMR has also made recommendations around the development of factsheets and guides for employers that aim to help them to support their employees' financial health. These may encourage greater employer involvement.

Employers had mixed reactions to the concept of automated financial advice

Employers expressed concerns around the extent to which some of their employees could deal with automated advice. However, there are examples of the effective provision of this type of advice. FirstGroup, an organisation with many staff who are not office-based, found that more than half of its workforce used its internet portal. In particular, it found that more than half were logging on using smartphones or tablets, suggesting that this type of approach could be effective for disparate employers, including those who do not use a computer

[1] Hymans Robertson (2016)

for work.[2] While some decisions around pensions are complex, employers' suggestions around telephone support for automated advice could be explored further.

Employers may be able to use existing resources to complement paid-for financial advice

Previous research found that some organisations used existing resources, such as Life Academy, as one element of their financial education programme. Where individuals are provided with guidance prior to seeking financial advice, this may enable them to access financial advice with some pre-existing knowledge around their pension arrangements. As a result, this may lead to them maximising the benefit that they obtain from financial advice.

[2] CIPD (2012)