

“Introducing a Pensions Advice Allowance” consultation - Response from the Pensions Policy Institute

Summary

- Overall, uptake of both guidance and advice remains relatively low.
- Employees appear to become interested in pensions as they approach retirement, suggesting financial advice from age 50 or 55 might be appropriate.
- Employers interviewed were very supportive of the Pensions Advice Allowance.
- Most employers indicated that they would promote the Pensions Advice Allowance to employees but were unclear how the logistics would be managed.
- Larger organisations are more likely to provide access to financial education or advice.
- Individuals may be able to use existing resources to complement paid-for financial advice

Response

1. This is the Pensions Policy Institute’s response to HM Treasury’s “Pensions Advice Allowance” Inquiry.
2. The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique as it is independent (no political bias or vested interest), focused and expert in the field, and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.
3. This submission does not address all of the specific questions in the consultation. Rather, the response provides an overview of the findings of a recent PPI report “At-retirement advice in the workplace”¹ that relate to the Pensions Advice Allowance. This report draws heavily on qualitative research with employers conducted by Bdifferent, a company specialising in financial services research.

¹ PPI (2016) *At retirement advice in the workplace*

4. A copy of the full PPI report “At-retirement advice in the workplace” is attached. This research explores employers’ attitudes around the provision of financial advice and, as part of this research, interviews were conducted with a small number of employers. The findings from these interviews are therefore indicative rather than representative.

Overall, uptake of both guidance and advice remains relatively low

5. There are concerns, in particular, around those individuals who will rely on their Defined Contribution (DC) pension savings to supplement their state pension, who have low levels of financial education and are unlikely to take regulated financial advice. Of those who have withdrawn some money from their DC pensions since April 2015, just over one in five have used Pension Wise.² Similarly, take-up of paid-for financial advice remains relatively low.

Employees appear to become interested in pensions as they approach retirement, suggesting financial advice from age 50 or 55 might be appropriate

6. 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.³ Employers typically felt that advice should be targeted at those aged over 55 with some suggesting that this age limit should be lowered to age 50.

Employers were very supportive of the Pensions Advice Allowance

7. Employers were supportive of this and, overall, preferred the option of it being the employees, rather than the employer, who takes on the commitment of paying for advice.
8. While employers broadly supported targetting this at older employees, some felt that younger employees should also be able to access the advice that they needed in order to ensure that they have a comfortable retirement. They also felt that it should be applied to holistic retirement advice rather than being limited to pensions advice.

² www.bbc.co.uk/news/business-35419330

³ Hymans Robertson (2016) *More freedom. More choice*

Most employers indicated that they would promote the Pensions Advice Allowance to employees but were unclear how the logistics would be managed

9. Employers were not sure how the Pensions Advice Allowance would operate and felt that IFAs should be responsible for monitoring how much of the allowance had been used. Employers are clear that they should not provide advice and show some reluctance to provide information to their employees due to concerns that they could risk exposure to regulatory liability by doing this.

Larger organisations are more likely to provide access to financial education or advice

10. Quantitative research conducted by the Chartered Institute of Personnel and Development found that 25% of very large organisations (with 10,000 or more employees) and only 12% of SMEs (with fewer than 250 employees) surveyed provided financial education.⁴

11. Employers taking part in the qualitative research interviews reflected this, with larger employers being more likely to offer access to financial advice in the workplace. The findings of the research suggest that this relates at least in part to the fact that larger employers typically have a greater awareness of the importance of pensions as part of an employee's remuneration package. Such employers typically provide greater support to employees through, for example, having an individual whose sole role is dedicated to pensions.

12. This suggests that there may be a specific role for the Pensions Advice Allowance for employees of smaller employers, in particular, who may not have access to financial advice via their employer.

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

13. 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.

⁴ CIPD (2012) *Workplace Financial Education*