

PPI Roundtable - Pensions Guidance **Tuesday 29th August 2017**

Background to the research

The Financial Guidance and Claims Bill will create provisions for the creation of a new Single Financial Guidance Body. The Body is expected to go live in autumn 2018 and will be tasked with addressing financial capability issues facing consumers throughout their lives.

With an objective to improve people's ability to make informed financial decisions, the Bill is important given the options open to defined contribution (DC) pension customers when accessing their pension savings. Given the available evidence of low financial capability and disengagement among many DC pension savers, the scale of the challenge is great.

The PPI held a roundtable on 29th August 2017, sponsored by Just, to consider data on DC pension savers' use of pension guidance and its impact so far, the role of pensions guidance and options for improving the current low take-up by DC pension customers.

The event drew together participants from the pensions industry, consumer organisations, policymakers and guidance providers.

The main purpose of the roundtable was to encourage debate on trends since the "pension freedoms" were introduced in 2015 and seek views from industry groups, consumer representatives and policymakers on the potential impact to customers who do not receive professional support with their decisions.

To support the discussion, the PPI produced a short note providing an overview of the Pension Wise Service Evaluation carried out by IPSOS MORI on behalf of the Department of Work and Pensions, as published in October 2016 (Appendix 1).

After a welcome by the **Chair (Chris Curry, Director, Pensions Policy Institute)** he invited opening statements from organisations who have produced research relevant to the discussion.

Opening statements

Stephen Lowe, Group Communications Director, Just Group plc.

Stephen welcomed attendees and explained why Just was keen to support the roundtable, setting out three particular concerns arising from data published so far:

- There is weakening competition in the retirement market, as confirmed by the Financial Conduct Authority's Retirement Outcomes review and other analysis;
- Increasing levels of fraud and scam activity targeting DC pension savers since the freedoms were introduced, with Citizens Advice suggesting 11 million customers have received unsolicited advice since 2015;
- Guidance take-up has been consistently low, with only around one in ten DC pension savers using Pension Wise when accessing their pension savings.

Good progress appears to be being made on pension guidance, with positive feedback received from those DC pension customers who have used the Pension Wise guidance service. Research commissioned by the DWP found that over four-fifths (85 per cent) of users felt their understanding of their options improved as a result of using Pension Wise. Nine in ten (91 per cent) were satisfied overall, with 94 per cent saying they were likely to recommend the service to others.

Janette Weir, Director, Ignition House

Janette presented high level findings from recent research conducted as part of the FCA Retirement Outcomes Review.

- The FCA research consisted of 92 in-depth discussions with individuals aged between 55 and 59 and looked at behaviour around pension spending.
- Three prominent attitudes were identified:
 - The 'deliver income' group;
 - The 'control money' group; and
 - The 'spend it now' group
- The deliver income group are characterised by their tendency to save and perceive their income as long-term.
- The control money group withdraw most, if not all, of their pension income due to trust issues with the pension industry.
- The 'spend it now' group are inclined to spend their income rapidly, mainly for consumption purposes.

- This research also explored the reasons behind participants' spending behaviour:
 - **Trust issues:** negative media discourse on the pensions industry has meant that "pensions" has become a 'dirty word'
 - **Framing:** the framing of pension income as 'tax free cash' denotes its disposability
 - **Focus on the present:** spending money quickly and at the present moment has become the new social norm and is further exacerbated by people copying other people's behaviours.
 - **Urgent need:** individuals who withdraw income can be in urgent need of it.

Janette concluded by suggesting that guidance could go through a checklist highlighting potential needs, resources and implications with consumers, in order to help people with their decisions and potentially counteract negative effects of bad decisions.

Ben Franklin, Head of Economics of Ageing, ILC-UK - provided insights from the ILC's work on DC pension savers and the pension freedoms. He made the following points:

- While some DC pension savers may be able to engage with their options and absorb related information - or pay for regulated advice - many are not in this position.
- Evidence suggests a default guidance approach could increase financial security, but there are risks attached to widespread use of guidance:
 - Over time the use of financial guidance may lead to overconfidence without building up capability
 - Technology enables people search for advice on line but may also make them more vulnerable to scams
 - As mandatory education can cause disengagement and resistance, default guidance may further isolate those already disengaged and lead to apathy
 - There may be resistance from industry and consumers to the introduction of a quasi-mandatory system
- Though these issues may merit examination over time to understand the impact of a default guidance policy, evidence suggests badly-informed decision making can lead to a range of bad outcomes. As such, a default to guidance seems a pragmatic and proportionate approach.

Roundtable discussion

The following points were raised during the discussion. They do not necessarily reflect the views of the Pensions Policy Institute:

The role of pension guidance

- Guidance does not offer bespoke solutions; is it reasonable to expect behaviours to change on the premise of guidance?
- Guidance is not intended to identify specific solutions or recommendations, but to raise understanding of the available options and their implications, and help people make informed decisions.
- Guidance should also aim to specifically reduce the known risks that exist in an environment where people are no longer automatically expected to buy an annuity.
- There are still concerns within the retirement income market that people do not shop around and therefore are not getting the best deals or the most appropriate products. Rather than being addressed by the pension freedoms, problems that existed in the pre-reform environment are still occurring.

Considerations on the value of guidance and how it will differ to other available advice

- Participants discussed whether guidance is sufficient in itself, or whether people need expert tailored advice.
- Advice might be more appropriate for people who will struggle to make decisions even after receiving guidance, but these people may not get advice for a range of reasons including cost.
- Guidance should continue to be provided by impartial, independent organisations, and ensure the information given to users is relevant and takes into account people's personal circumstances. In many cases guidance will be sufficient to help people make better decisions about using pension income in retirement.

Considerations on mandatory guidance

- Mandatory guidance might force change, but may be received negatively by some people. A mandatory approach could make people feel stressed, annoyed or suspicious or could lead to disengagement.
- Mandatory guidance may also involve higher levies on industry.

Role of default guidance

- One way of making guidance a default would be for those with DC savings to be automatically directed to guidance when they seek to access their savings. However, any such system should be carefully designed to lock out scammers trying to contact pension customers directly, or impersonating providers or the guidance service.

- Would default guidance necessarily increase knowledge? Or would it merely increase numbers of people using guidance but not necessarily following on with informed decision making?
- The majority of Pension Wise customers took at least one action post-appointment with an advisor, which suggests guidance users are likely to be experiencing improved outcomes.
- There needs to be revision to the language around guidance and advice in order to ensure that customers understand exactly what service they are receiving and do not end up feeling disappointed or confused because, for example, they may have expected advice.
- Whatever mechanism is used to get people to guidance, it is essential, especially as more and more people are saving in DC schemes with potentially lower future income levels than previous generations. Guidance will be an essential tool for managing this change and supporting those at risk.
- Default guidance could be a particularly useful way of reaching those who are not even thinking of their pension options.
- Guidance could also play a role in helping to increase trust in the pension industry by providing more understanding of what pension and retirement-income providers do with people's savings, and reassuring people that their income or savings are "safe".

Improving outcomes through behavioural approaches

- Effective educational interventions with DC pension customers will be critical in encouraging positive behaviours and, in the long-term, should help develop new social norms around managing savings and income in retirement.
- Pension guidance encourages people to understand the options available to them and could help counter some behavioural biases, such as short-termism or trust-related aversion to retirement planning.
- Creating a new norm will be difficult unless interventions are robust enough to motivate behavioural change.

At what life stage is guidance likely to be most effective?

- Guidance should be received prior to an individual receiving pension income, potentially at the age of 50 – because at this point people are beginning to consider how they will manage their future finances.
- However, circumstances evolve overtime and a person aged 50 will have different issues to a pensioner. As people age, planning also becomes more complex. Could financial guidance at age 50 miss out vital planning issues such as health, care and housing needs?
- A useful intervention for a 50 year old, for example, could simply entail a financial calculation about how much to save for the desired level of income in retirement.

Summary of key discussion points

- The main aim of pension guidance is to improve people's understanding of their options and provide information to explain the risks and benefits of the options. Making guidance the starting point could deliver a useful norm of engaged, informed planning at a key point, with reliance on DC pension benefits growing for those now approaching retirement.
- Ideally, all customers would have the opportunity to receive tailored financial advice, but the cost would be potentially too high.
- Default guidance is a good starting point, and may motivate some people to take advice should they want to go on to receive specific recommendations.
- Mandatory guidance is unlikely to be feasible due to a potential lack of political support and concerns that it may have a negative impact on engagement.
- Participants broadly felt that promoting and providing access to guidance from the age of 50 would help people with pension planning and prepare them for accessing their pension benefits on an informed basis at a later time of their choosing.

Appendix 1 – Pension Wise Service Evaluation Summary

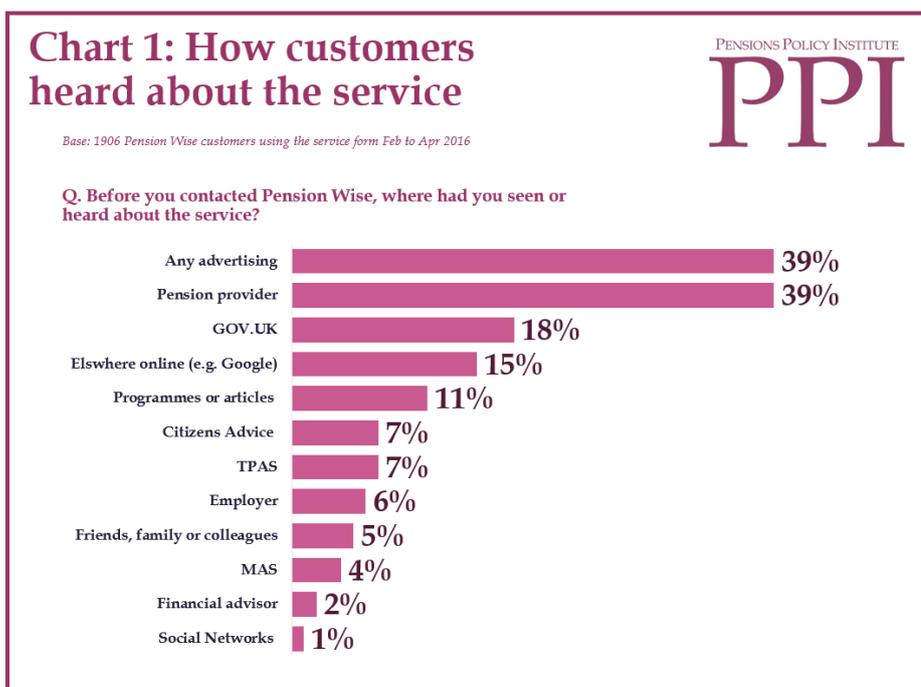
This appendix provides an overview of the Pension Wise Service Evaluation carried out by IPSOS MORI on behalf of the Department of Work and Pensions, as published in October 2016. The evaluation aimed to measure experiences of using the Pension Wise guidance service and consisted of interviews with 1,906 Pension Wise users.

Key Findings

- Advertising and pension providers were the main routes to finding out about Pension Wise.
- Understanding pension options and improving knowledge about retirement/pensions were the main reasons for booking an appointment with Pension Wise.
- Pension Wise received high levels of satisfaction from users. The summary document was also highly regarded.
- Levels of understanding and knowledge improved after using Pension Wise. A majority also took at least one concrete action post-appointment.

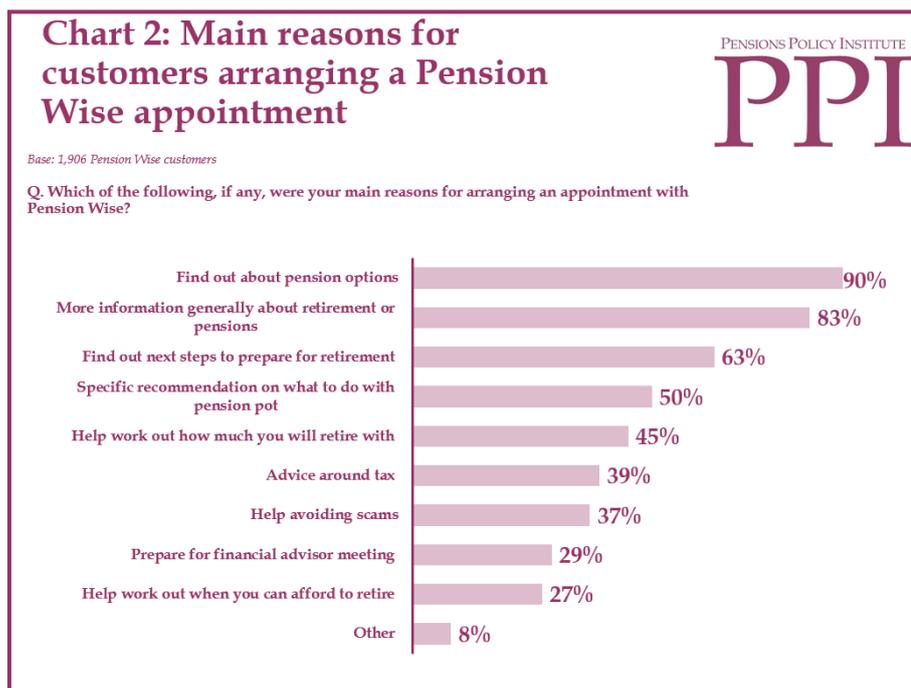
Routes to Pension Wise

The main routes to finding out about Pension Wise were through advertising and pension providers. Users were more likely to have heard about Pension Wise through either advertising (39%), a pension provider (39%) or through the GOV.UK website (18%). Other routes can be seen in Chart 1.



The two main reasons for making an appointment were to find out about pension options and to seek more information about retirement and pensions.

90% of users were seeking to find out more about their pension options, 83% seeking more information on retirement/pensions and 63% seeking to find out the next step when preparing for their retirement. Further reasons are identified in Chart 2.



Satisfaction and usefulness

Users expressed high levels of satisfaction with Pension Wise, with the majority citing its usefulness when they needed information (Chart 3). The summary information provided by Pensions Wise to users after their guidance session was also highly regarded.

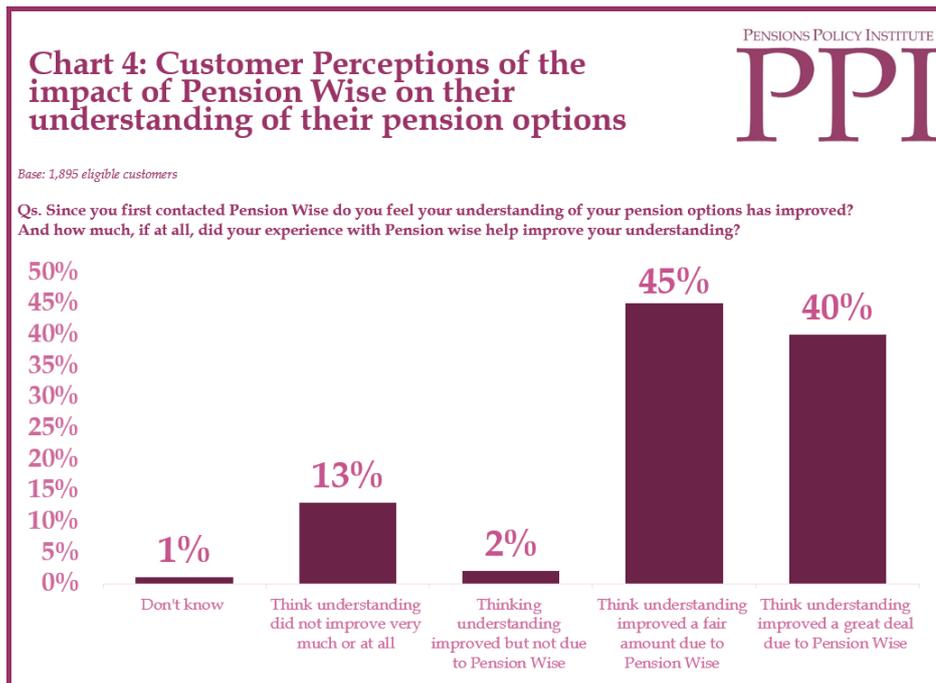
General satisfaction levels amongst users were high with 91% overall satisfied with their experience. The main reasons highlighted were that the service provides useful information (81%), the guider was helpful/nice to deal with (73%) and that it made their pension options clearer (65%).

The summary document provided to users after their appointments was well received. Nine in ten (89%) read at least some of the summary document and, of those, the overwhelming majority said it was easy to understand (94%). 5% reported that they were experiencing problems with the service such as not being able to get through on the phone (19%) or the waiting time for the next available appointment (18%).

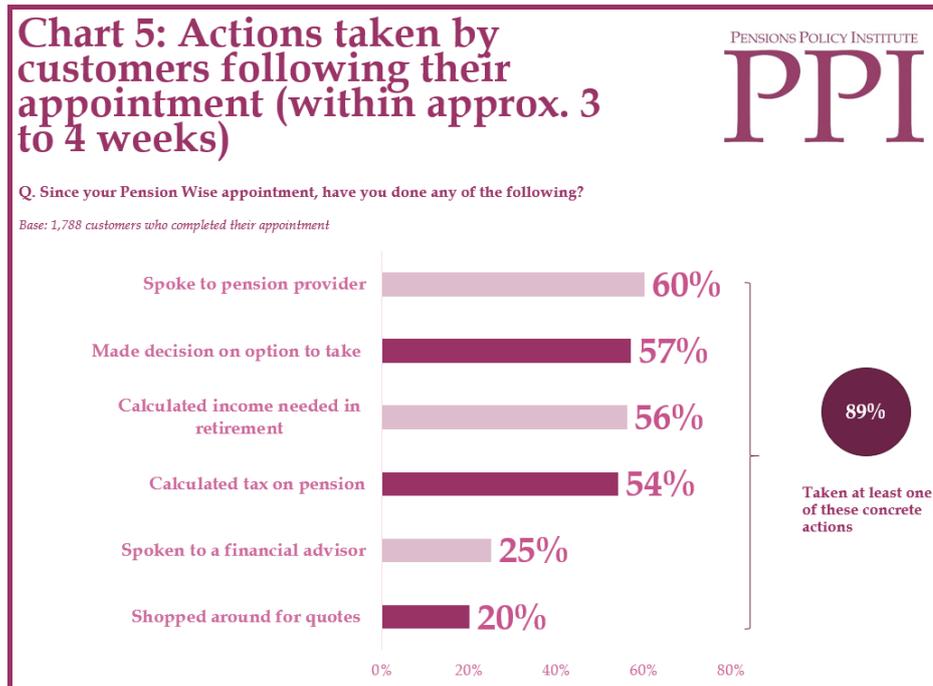


Impact on understanding

User feedback indicated that levels of understanding and knowledge improved after using Pension Wise (Chart 4). The evaluation also found that the majority of users took at least one concrete action post-appointment. Over four-fifths (85%) said Pension Wise helped to improve their understanding by either a great deal or a fair amount.



89% of users took at least one concrete action after their session. Of these, 60% spoke to their pension provider and 57% made a decision on which option to take. Other actions can be seen in Chart 5.



Further evaluation

Work on the next stage of the study is now underway. Findings are expected to be published in October 2017.