A Guiding Hand

Improving access to pensions guidance and advice

Scott Corfe
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SMF Social Market Foundation

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PHOENIX GROUP

FIRST PUBLISHED BY

The Social Market Foundation, February 2022
11 Tufton Street, London SW1P 3QB

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ACKNOWLEDGEMENTS

The SMF is grateful to Phoenix Group for sponsoring this research project. The views in the report do not necessarily reflect those of Phoenix Group. The Social Market Foundation retains full editorial independence with respect to its research. The authors are grateful to all those who participated in a roundtable discussion held as part of the research, and stakeholders who agreed to speak to us.

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Before joining the SMF, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy's thought leadership and public policy research.

Scott's expert insights are frequently sought after in publications including the Financial Times, the Guardian, the Times, and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4, and a range of other broadcast media.

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Matthew Oakley joined the SMF as Senior Researcher in July 2015, he is also Director of WPI Economics. Before joining the SMF, Matthew had been Chief Economist and Head of Financial Services Policy at Which?, Head of Economics and Social Policy at Policy Exchange and an Economic Advisor at the Treasury. He has an MSc in Economics from University College London, where he specialised in labour economics and econometrics. He also led the Independent Review of Jobseeker's Allowance sanctions that reported to Parliament in 2014.

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EXECUTIVE SUMMARY

This report is about pensions: What do people know about their pensions, and what actions are they taking to ensure they can have the sort of income in retirement that they want?

Based on opinion polling and focus group work, we present new evidence on how many people get advice or guidance on their retirement planning, and on how people feel about pensions.

We find there is a serious gap in the provision of advice and guidance about pensions. Not enough people have the right information about their pensions and their retirement.

The result of this gap is real harm to many people. Lacking an accurate understanding of their saving and investment options as they move through life, and what they will need for the retirement they want, means some people will miss out on opportunities and not save enough, and end up disappointed. Not fully understanding their options on the way they use their pension savings in retirement means that some people will not make the best use of that money.

We analyse the barriers to support and to building greater understanding and positive engagement for individuals navigating an increasingly complex pensions landscape.

The report concludes with a set of policy recommendations for increasing use of advice and guidance, and enhancing the quality of provision on offer, in order to deliver better retirement outcomes for more people.

Key findings

How the status quo is bad for people

- **While pensions are associated with "independence", "comfort", and "security", feelings of "confusion" are common.** Individuals are significantly less likely to feel confident in managing pensions compared with a range of other financial products such as mortgages and savings accounts. Further, consumers tend to adopt a relatively hands-off approach to their pension(s), despite it being seen as very important for their household finances.
- **Pensions are set to become more complex and confusing for more individuals, given the shift away from defined benefit (DB) and towards defined contribution (DC) pensions.** With DC pensions, there is a lot less clarity and certainty around likely retirement income. Further, individuals face a range of complex choices at the point of accessing their DC pension pot – for example, whether to take a tax-free lump sum payment, purchase an annuity or enter drawdown.
- **Most households do not have adequate knowledge and support in navigating the complex pensions landscape.** Only 20% of 50-64-year-olds have spoken to a financial adviser about their pension. Just 14% of those accessing a defined contribution pension pot for the first time use the government's Pension Wise service, which aims to provide guidance on pension options, despite this service being free.

- **People who do not get advice or guidance don't know how much they need to save.** People who fall into the advice and guidance gap are unlikely to have a realistic estimate of how much they need to save to deliver the retirement income they want. Only 31% of 50–64-year-olds with a pension have a broadly accurate idea of the savings they need to deliver their desired income.
- **Uncertainty over pension needs is rife.** According to an Opinium survey of 2,000 50–64-year-old pension holders commissioned for this research, just over two-fifths (42%) are not sure or have no idea about the level of pension income that they will need to achieve their desired income in retirement.
- **Consequently, two-fifths (40%) of survey respondents reported not being confident in being able to meet their desired income in retirement, with 14% saying they are not confident at all.**
- **At the same time, a significant number are likely to be overconfident about understanding their pension needs.** Our analysis suggests that what people think they need in terms of size of pension pot upon retirement is significantly out of sync with what they are actually likely to need to reach their desired retirement income. We estimate that average pension pot under-provision stands at 58%, or £240,000. This amounts to a total under-provision of about £130bn per year among those reaching age 65.
- **Past research highlights further challenges when people reach the decumulation phase of retirement, especially as a growing number of individuals have defined contribution rather than defined benefit pensions.** The Pensions Policy Institute predicted that 700,000 people reaching the State Pension Age over a period of 10-15 years (12% of the total) will be at "high risk" of making poor decisions when they retire. A further 1.6 million (29% of the total) were estimated to be at "medium risk" of making poor decisions.

How advice and guidance help

- **Getting advice or guidance makes people much more likely to understand the pension savings they need.** Calculations for this report show that half (48%) of people who get advice have a broadly accurate idea of the savings they will need. The same is true of 35% of those that had used Pension Wise
- **This finding holds true after accounting for differences in the underlying characteristics of advice and Pension Wise users.** Our regression analysis found that, even after controlling for these factors, people who had taken financial advice were 14 percentage points more likely to have expectations of required pensions pots that were in line with SMF estimates, compared to those that that had used neither Pension Wise nor advice. Use of Pension Wise (without advice) increase the likelihood of accurate expectations by 5 percentage points.
- **Financial advice and high-quality guidance can allow individuals to make better choices at the point of pension pot decumulation** – for example, steering them towards drawdown or delayed annuitisation rather than purchasing an annuity straight at the point of retirement, if this is highly likely to result in better financial outcomes. Or encouraging individuals to think about their broader finances beyond their pension when thinking about retirement – for example,

by considering whether equity release or downsizing may be a good option for achieving a desired standard of living.

- **Use of financial advice is much more likely than Pension Wise to encourage saving.** Just under a quarter (23%) of people who took advice increased their pension contributions. Only 8% of people using Pension Wise did so.
- **While Pension Wise is associated with improved knowledge, using it appears to make little difference to behaviour.** Just over half (54%) of individuals that had used Pension Wise reported taking no action as a result of using the service. The most widely cited action as a consequence of using Pension Wise was taking a tax-free cash payment (21%). In contrast, the most frequently given consequence of speaking to a financial adviser about retirement was increasing levels of contribution into a pension pot (23%) and changing investment (20%).
- **We found that those using financial advice had potential pension pot shortfalls that were 4% lower** than those who had used neither Advice nor Pension Wise**,** after taking into account variations in age, region, approach to finance, housing tenure, income and sex.

How the status quo stops people getting help

- **Overconfidence in one's financial knowledge prevents individuals from receiving support.** In the Opinium survey, the most frequently cited reason for not speaking to a financial adviser was feeling financially knowledgeable enough to take decisions without advice (28%), with this driven by men (34%) rather than women (22%). Indeed, among women, the most cited reason was feeling that the individual's retirement savings are too small for advice to make much of a difference (27%).
- **Lack of awareness about what is on offer also affects usage.** Across adults aged 50 and over in 2020, just one in three (33%) had heard of Pension Wise, though this rises to about half (47%) among those aged 55-64. While awareness levels have increased significantly since 2017, that still leaves a significant proportion – indeed a majority – of older individuals unaware of the government's own pensions guidance service.
- **Regulatory barriers are likely to be holding back provision of advice and guidance.** This risk of falling foul of regulations can reduce the number of firms offering guidance. A view expressed at an expert roundtable held as part of this research was that the concept of "guidance" is not well-defined by the Financial Conduct Authority, with the boundary between (regulated) advice and (unregulated) guidance open to interpretation.

What must be done to fix this

1. **Pension Wise needs to be expanded, with a broader scope and new digital tools.** Policymakers should explore the case for expanding the scope of Pension Wise in two key ways. Firstly, providing tailored guidance on the level of pension savings likely to be needed to achieve a given retirement income. Secondly, allowing all of those over the age of 40 or 45 with a defined contribution pension to book a Pension Wise appointment, rather than just those over the age of 50 as at present. This would give individuals more time to correct for any inadequacies in their current retirement planning – for example

by ramping up contributions into their pension pot or changing any non-pension investments.

Further, Pension Wise's online offer needs to be improved, including through the provision of "robo guidance" and "robo modelling" that provides individuals with highly relevant information and a clear visualisation of the potential impact of different options on their financial position in retirement.

2. **At a minimum, the FCA should provide clearer information on its current definitions, including more concrete examples of what constitutes "guidance" and "advice".** This should include through provision of "gold standard" examples of guidance that is highly informative and actionable, without straying into advice territory.

   Ideally, the FCA should go further and adopt new definitions along the lines of those suggested by the Independent Review of Retirement Income. This would see two categories of information, guidance and advice: "personal recommendation" and "financial help", with the latter replacing everything that is not full regulated fee-based advice where the adviser takes responsibility for a recommendation. Such an approach would give organisations more confidence to offer enhanced forms of guidance without falling foul of regulation.

   Any review of definitions should involve extensive stakeholder engagement – including with consumer groups, pension providers and financial advisors – to best ensure that issues with the current framework are resolved.

3. **Given the complexity of decision-making at the point of accessing a pension pot, using guidance or advice should be made the default**. Before accessing their pension pot, individuals should be requested by their pension provider to use some form of guidance and advice, and signpost individuals to a range of options, including online tools. As well as services offered by the pension provider, there should be signposting to Pension Wise and non-provider services, in order to build trust and give consumers choice.

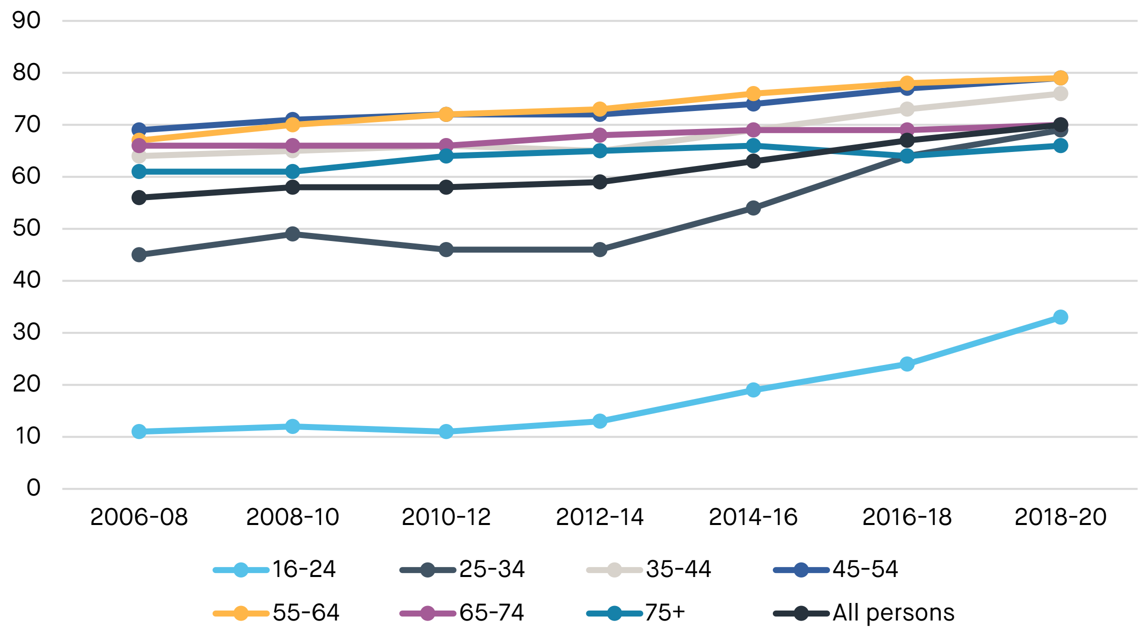
   Individuals would have to explicitly say that they do not want support in order to access their pot without advice or guidance.

4. **The Government needs to invest significant resource into a nationwide pensions awareness campaign** which brings home the need for individuals to prepare for retirement, makes them aware of the complexity of the decisions they face when accessing their pension pot and signposts them to support. It should be delivered through a partnership between government, industry and the third sector, ensuring common messaging.

CHAPTER ONE – INTRODUCTION

Private pensions are crucial for ensuring a good standard of living in retirement, with the UK providing a lower level of state pension than most other advanced economies relative to average earnings.[1] Yet, while the introduction of pension auto-enrolment has seen the proportion of individuals with some kind of pension wealth rise from 56% to 70% between 2008-10 and 2018-20, that still leaves a significant share with no pension wealth at all.

Figure 1: Percentage of individuals with at least some private pension wealth (active, preserved or in payment)



Source: ONS Wealth and Assets Survey

Further, even among those that do have a pension, a significant number do not have pots large enough to meet their desired income and standard of living in retirement. The shift away from defined benefit to defined contribution pensions – driven by rising life expectancies and an ageing population – has complicated retirement planning for UK households greatly, introducing much more uncertainty into likely pension income.

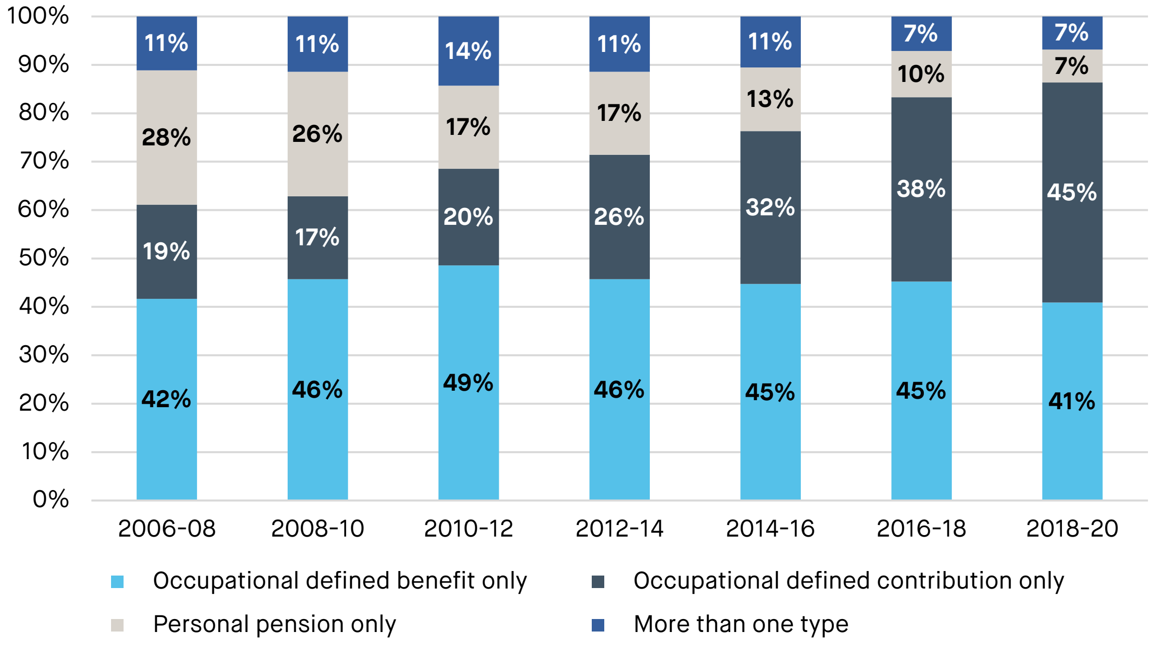
Then there are questions about the number of people making well-informed decision at the point of retirement and pension pot decumulation, in which individuals with defined contribution pensions have to make often complex choices about whether to take a tax-free cash payment, purchase an annuity or enter drawdown (or some combination of these). With the "right" decision depending on an individual's risk appetite, likely life expectancy, plans for retirement and broader financial position (e.g., non-pension assets held), many will embark on the wrong course.

In short, pensions are complicated financial products in which individuals face multiple challenges in making informed decisions – whether that be in the accumulation or decumulation phase.

Despite this, as things stand most households lack much in the way of support for navigating the complex pensions landscape. A minority (20%) of 50–64-year-olds have spoken to a financial adviser about their pension.[2] Just 14% of those accessing a defined contribution pension pot for the first time use the government's Pension Wise service[3], which aims to provide guidance on pension options, despite this service being free.

Much more needs to be done to address this "guidance gap", especially as a growing proportion of those approaching and reaching retirement will have defined contribution rather than defined benefit pensions, as shown in the chart below. To eliminate this gap, a multi-pronged approach will be necessary, with options for policymakers including steps to educate the public on pensions and improve awareness of guidance available, revisiting the regulatory environment surrounding advice and guidance, bolstering Pension Wise and removing some of the jargon and excessively complex language that surrounds pensions.

Figure 2: Breakdown of types of pensions held by individuals actively contributing to a private pension scheme



Source: ONS Wealth and Assets Survey

In this Social Market Foundation (SMF) report, we explore the benefits that could be realised through broader provision of pensions advice and guidance, and the role of policy in improving access to advice and guidance. Our research has drawn on a review of the existing literature on this topic, engagement with a range of expert stakeholders, and new quantitative and qualitative primary research in which we explored public attitudes towards pensions. In particular, we commissioned an Opinium survey of 50–64-year-old pension holders as well as a qualitative online "pop-up community" in which 30 participants were given a range of tasks and discussion activities over the course of the week. More information about this primary research can be found in the appendix to this report.

The structure of this report is as follows:

- **Chapter two** explores public attitudes to pensions and the extent to which individuals are well-informed about financial requirements needed to meet their desired standard of living in retirement.
- **Chapter three** examines and quantifies the value of pensions advice and guidance.
- **Chapter four** provides an overview of the barriers to accessing and utilising guidance and advice.
- **Chapter five** provides a series of policy recommendations, informed by the preceding analysis.

A note on terminology

In this report, we talk about pensions "guidance" and "advice". While these terms are often used interchangeably, they have important differences in the context of pensions and finance more broadly.

Here, "advice" means a "recommendation of what you should do". For example, a recommendation to buy a particular annuity. The recommendation is personal to the individual receiving advice and will be based on their specific circumstances and financial objectives. Only a firm that is authorised by the Financial Conduct Authority (FCA) can provide this kind of advice.

"Guidance" is a much broader term and includes more general information about financial products such as pensions. It can include information about different types of investments or general principles for an individual to consider when investing. In contrast to advice, it will not recommend a specific course of action to you or give a personal recommendation about how you should invest.

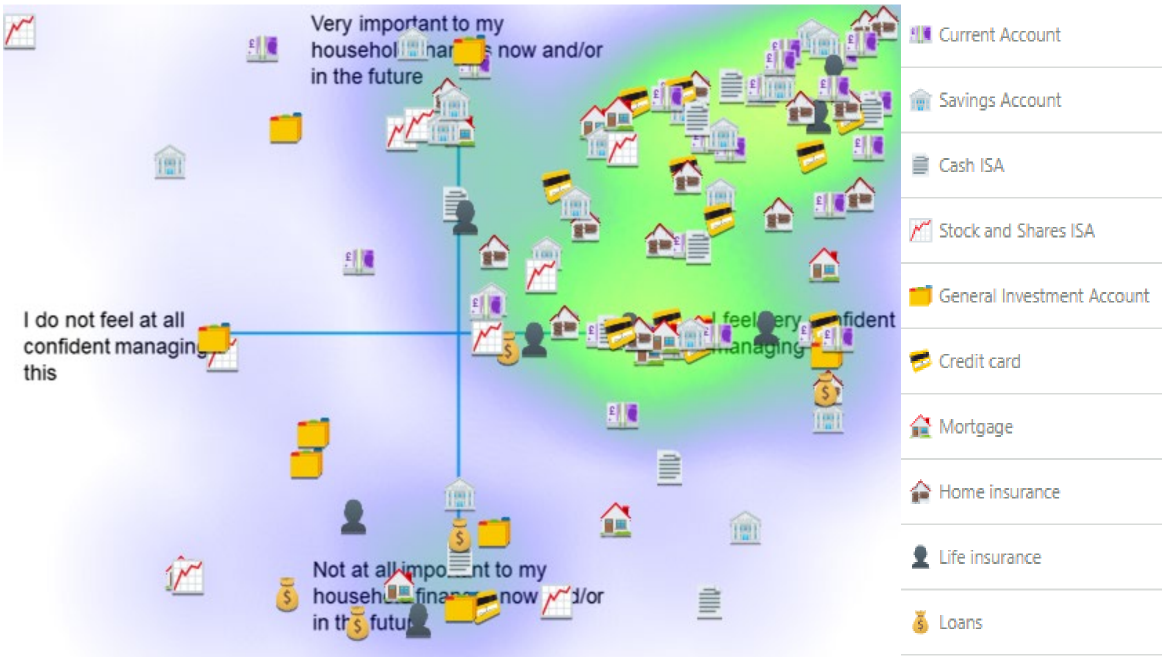
CHAPTER TWO – PUBLIC ATTITUDES TOWARDS PENSIONS

In this chapter, we explore public attitudes towards pensions – how the topic of pensions makes people feel, individuals' aspirations for retirement, and confidence in meeting these aspirations. We also examine the contrast between pensions and other financial products that individuals typically engage with.

Pensions are considered very important but also confusing

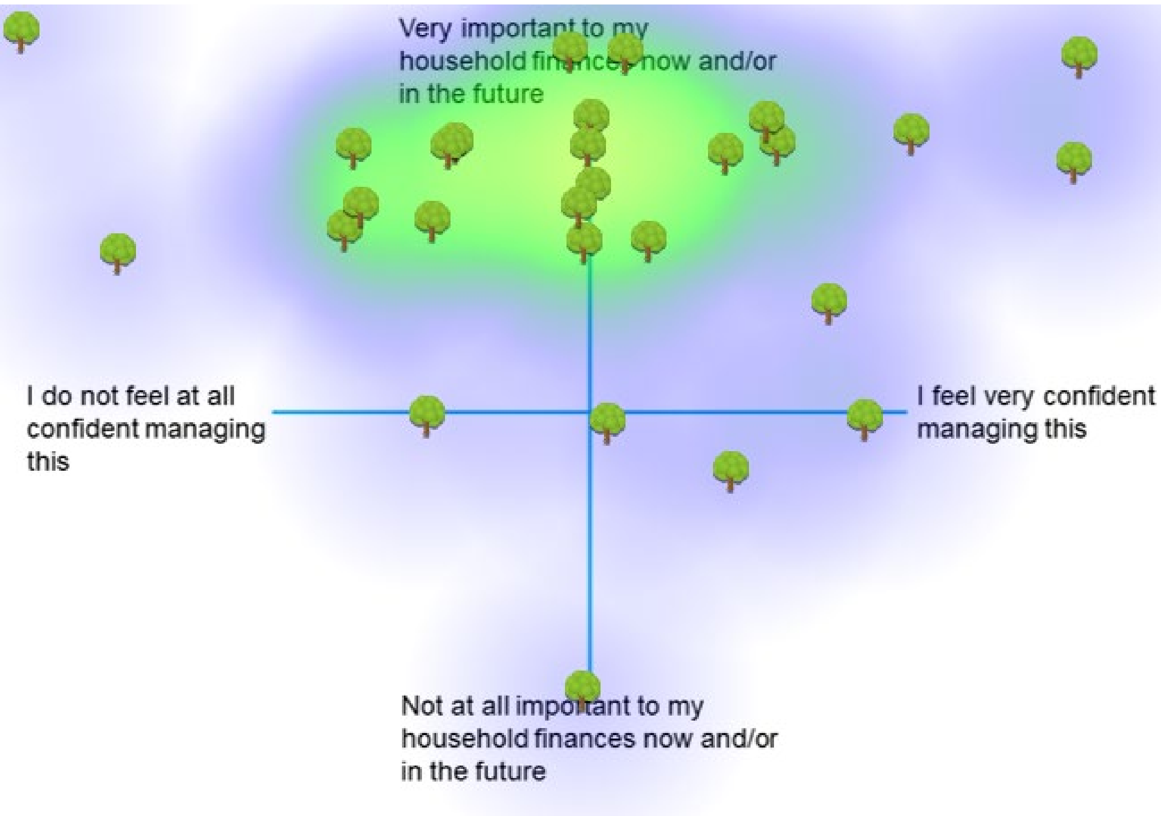
Understandably, given their role in shaping living standards in later life, pensions are considered "very important" by individuals in terms of their impact on household finances now or in the future. However, the online pop-up community we commissioned as part of this research found that individuals were significantly less likely to feel confident in managing pensions compared with a range of other financial products such as mortgages and savings accounts – probably reflecting some of the complexities around pensions that we discussed in the introduction to this report.

Figure 3: Results from pop-up community pin-drop exercise. Non-pension products



Source: Opinium pop-up community

Figure 4: Results from pop-up community pin-drop exercise. Pensions



Source: Opinium pop-up community

This lack of confidence in managing pensions is also reflected in the emotions evoked by mention of the subject. While pop-up community respondents commonly associated pensions with “independence”, “comfort” and “security”, “confusion” was also a widely cited feeling.

Figure 5: Emotions evoked by "pensions"

Source: Opinium pop-up community

Confusion and complexity contribute to disengagement

Perhaps reflecting the lack of confidence in managing pensions, and the feelings of confusion evoked, consumers tend to adopt a relatively hands-off approach to their pensions, despite these being seen as very important for their household finances. For example, individuals are likely to leave matters in the hands of their employer rather than engaging with how much they have saved into their pension(s). Some cited doing this out of trust that their employer would ensure the pension was run well.

This hands-off approach contrasts with how individuals describe engaging with their finances more generally; online pop-up community participants made several mentions of doing regular audits and assessments of their spending patterns, for example, and described other ways in which they are relatively hands-on with their finances.

One participant described how she was very careful managing her finances more broadly but did not monitor her pension because she knew it was not big enough to give her the type of lifestyle she would like in retirement – suggesting a sense of resignation.

Figure 6: Pop-up community quotes: management of general finances and pensions

General Finances	Pensions
"I am very careful with my money mainly because I must pay all my bills. I do not spend a lot of time watching my pension, mainly because I know I do not pay enough, and I will not have a big enough pot to have to live like I would like in retirement"	*"I have a hands-off approach as I tend to live day-to-day, and I just leave my pension in the hands of the provider"*
"I do pay a fair amount of attention to my finances and have an accurate knowledge of my monthly outgoings including direct debits. I check my bank account app at least once a week and do a quarterly review of expenditure"	*"I trust the company to see to the running of it"*
	"My pension is a mix of a (generous) defined benefit scheme and a later, defined contribution one. I don't spend a lot of time on it - it's with a fairly safe traditional employer and it will be what it will be."

Source: Opinium pop-up community

Even when individuals engage and seek information, confusion is common

Even when individuals take a more hands-on approach to their pension, it is often difficult for them to find appropriate information or guidance, and to translate these into actions that would improve their outcomes in retirement. Many pop-up community participants felt that looking for information on pensions is time consuming because of information overload, and several also mentioned that information on pensions was not accessible. In the words of some participants:

> *"I think you really have to search for any information on pensions… some companies do give advice but that is mainly for their own pension schemes. It can also be time consuming, searching online to find the right information, and then perhaps still not understanding it."*
>
> *"There is a lot of information out there, but it is not always easily accessible. I don't use financial advisors because they are too expensive and not always impartial."*
>
> *"Sometimes there can almost be too much information, such that it's hard to "see the wood for the trees"."*

- *Quotes from pop-up community participants*

While pop-up community participants cited using their pension provider, websites such as Money Saving Expert and Pension Wise as sources of information, challenges included confusing terminology, a feeling that they were not being told everything they needed to know and too much information being provided, making it difficult to digest:

> *"I have looked around on an internet money saving website, and the GOV.UK website, but I feel pensions are confusing … there always seems to be something they do not tell you."*
>
> *"I receive emails and yearly paperwork from [my pension provider]. I don't really understand it very well. I occasionally go on their website and look around. I have used the money saving website which was okay but still confusing. I am thinking of using Pension Wise with me being over 55, to see what my options are. I struggle to get my head around what would be best for me"*
>
> *"Providers can sometimes produce so much information that it actually becomes more confusing. I prefer relatively simple answers to questions, or easy to understand scenarios."*

-Quotes from pop-up community participants

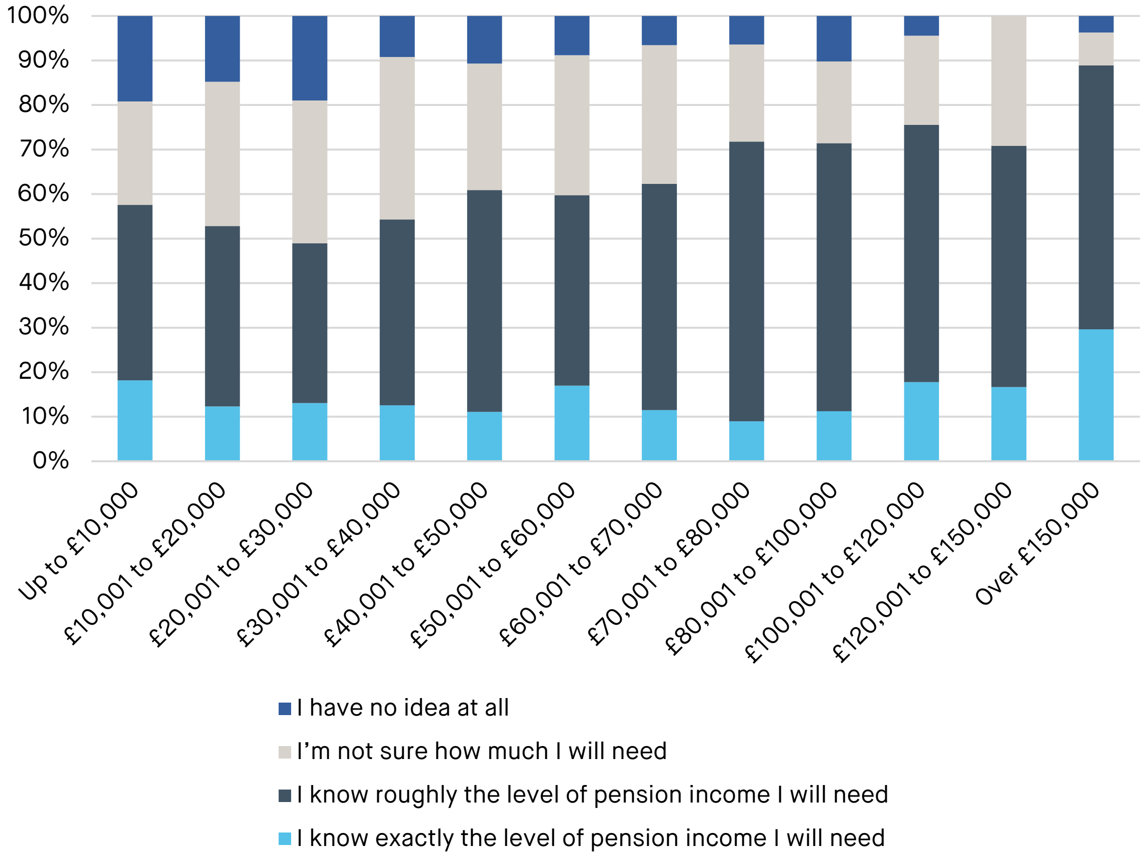
Uncertainty over pension needs is rife

Amid an environment of complexity, confusion, and a lack of "plain English" information, a significant proportion of individuals are uncertain about their pension needs.

According to the quantitative survey of 2,000 50–64-year-old pension holders commissioned for this research, just over two-fifths (42%) are not sure or have no idea about the level of pension income that they will need to achieve their desired income in retirement. As the chart below shows, rates of uncertainty are notably higher among those in low-to-middle income households.

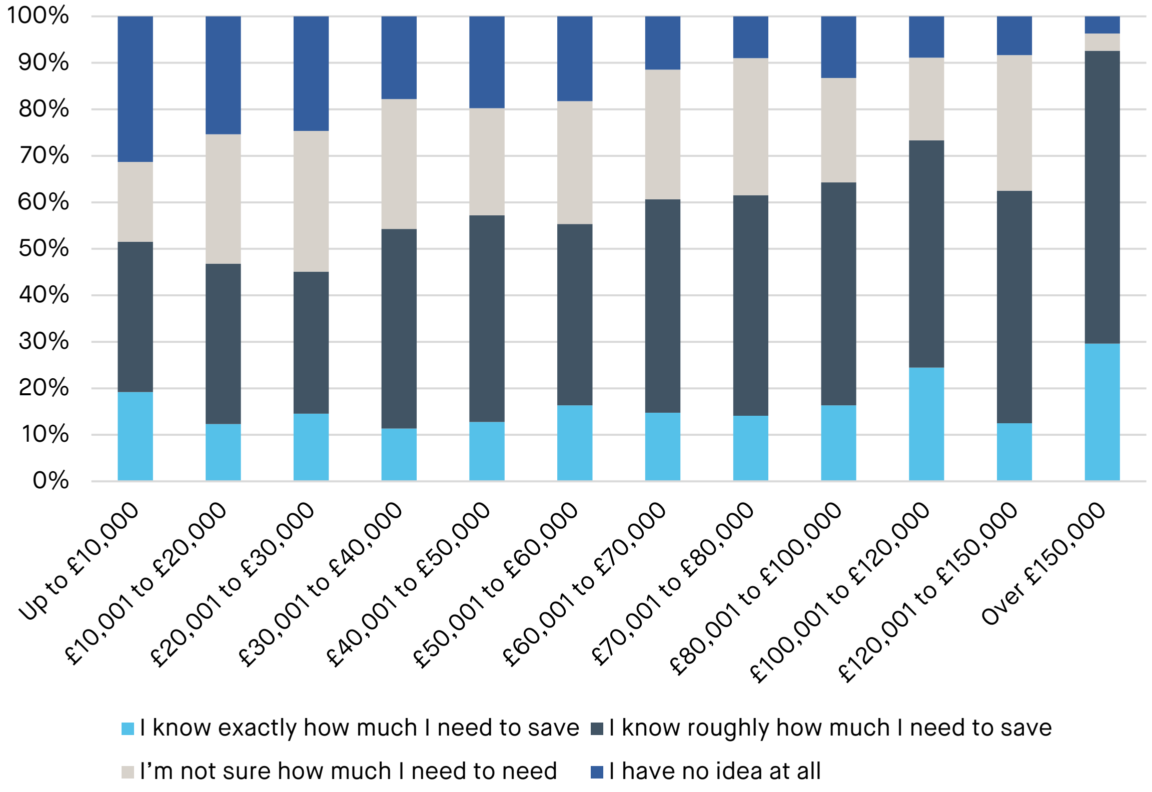
A larger proportion (46%) reported being unsure or having no idea about how much they would need to save to support their desired standard of living in retirement. This was true for a majority of individuals in households with income of between £10,000 and £30,000 per year.

Figure 7: Thinking about your retirement, to what extent do you know the level of pension income you will need to achieve your desired standard of living in retirement? Findings by household income



Source: Opinium survey

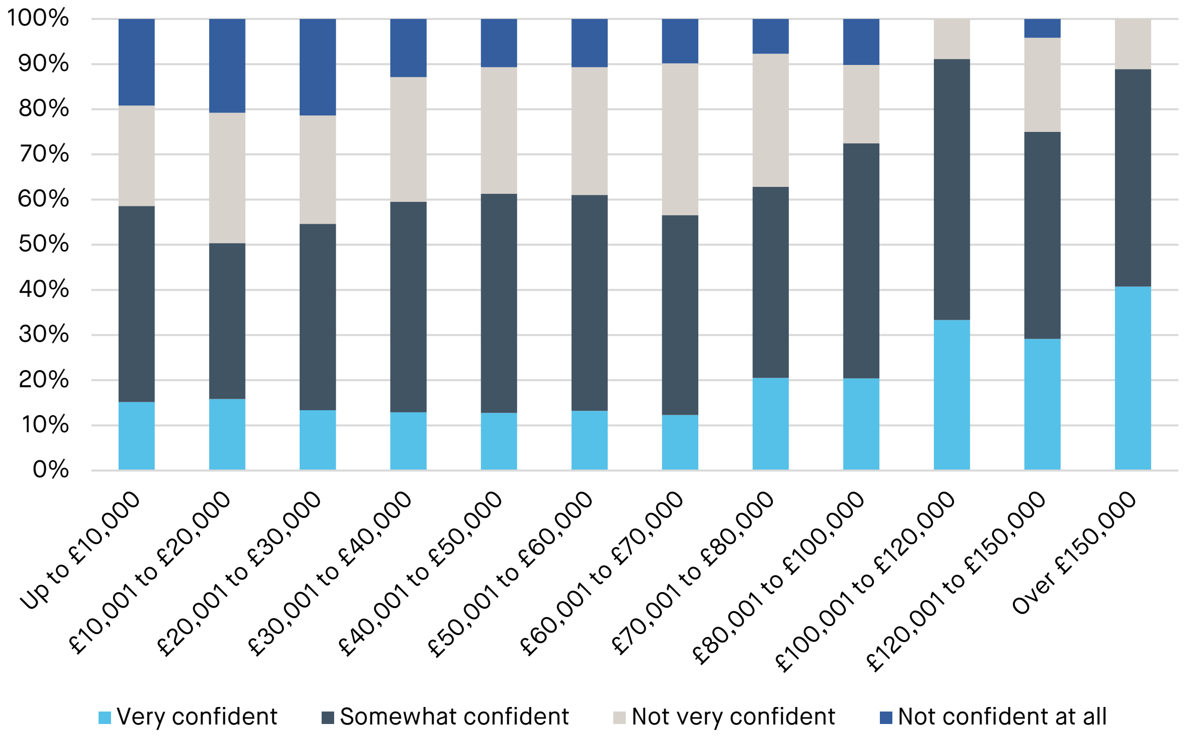
Figure 8: To what extent do you know how much you need to save to support your desired standard of living in retirement (including saving into pensions)? Findings by household income.



Source: Opinium survey

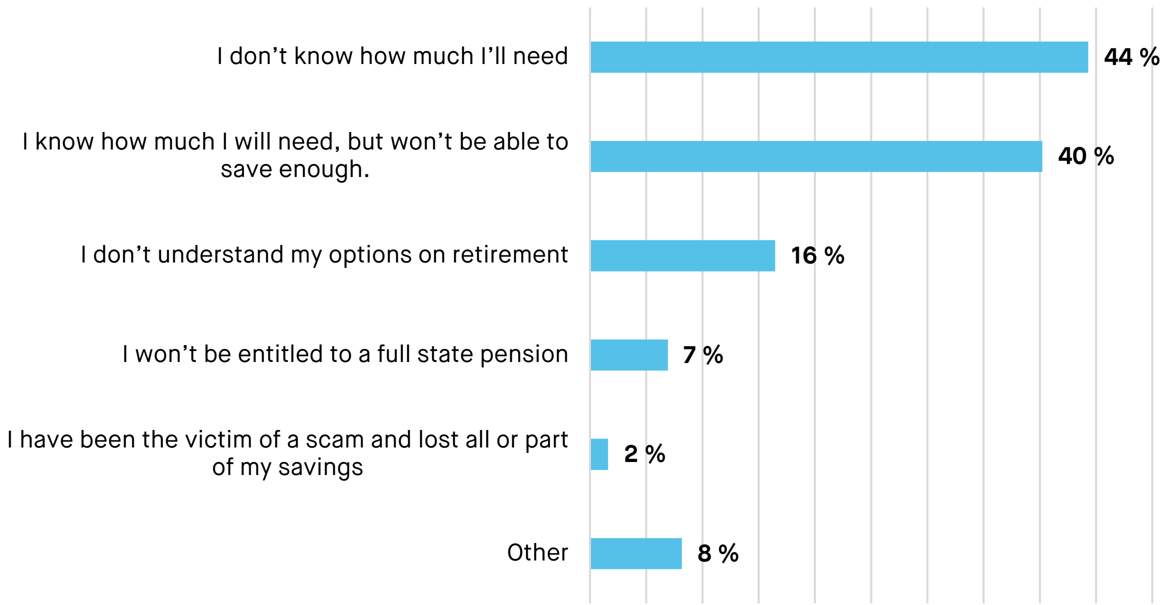
Consequently, two-fifths (40%) of survey respondents reported not being confident in being able to meet their desired income in retirement, with 14% saying they are not confident at all. Some 44% said that this lack of confidence was a result of not knowing how much they would need in retirement, while 40% said that while they know how much they will need, they will not be able to save enough to meet their desired standard of living. About one in six (16%) cited not understanding their options in retirement.

Figure 9: To what extent are you confident that you will be able to meet your desired standard of living in retirement? Findings by household income.



Source: Opinium survey

Figure 10: You said that you were not confident about being able to meet your desired standard of living in retirement. Why is this?



Source: Opinium survey

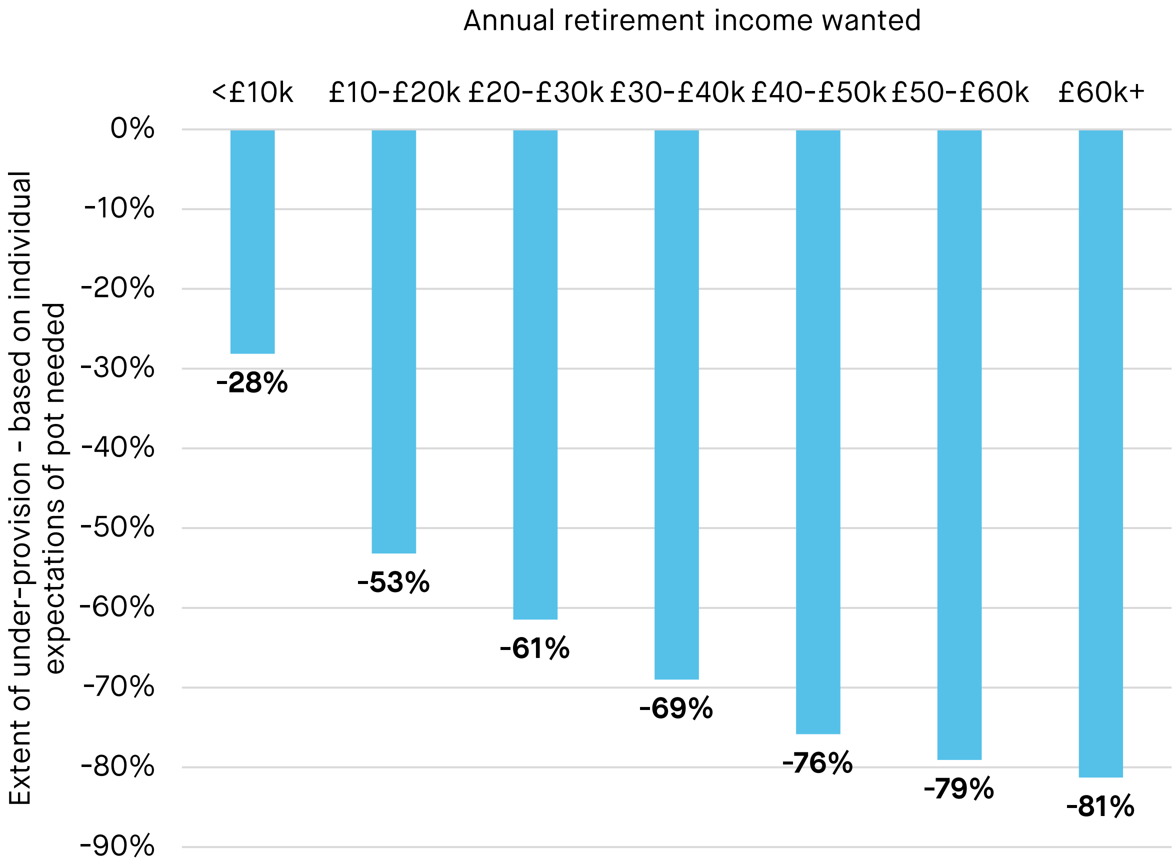
A significant number are likely to be overconfident about understanding their pension needs

The survey findings reported above are likely to understate the extent to which individuals will struggle to meet their desired standard of living in retirement; among the 60% of pension holders that are confident about being able to do this, overconfidence is likely to be rife.

Our analysis suggests that what people think they need in terms of size of pension pot upon retirement is significantly out of sync with what they are actually likely to need given the desired retirement income they gave in the survey. Even if people end up with the pension pot they expect they need, they would end up falling far short of what is actually required to achieve their desired retirement income. Across the whole sample, the average size of pension under-provision – comparing individual expectations of the pension pot needed with what is actually required – is 58% or around £240,000. This amounts to a total under-provision of about £130bn per year among those reaching age 65.

The scale of pension pot under-provision is highest in Wales (64%), followed by London, the North East of England and Northern Ireland (all 63%).

Figure 11: Pension pot under-provision (as % of SMF estimated pension pot required) if individual expectations of required pots are met



Source: SMF modelling, Opinium survey. An online pension calculator was used to estimate the size of pension pot needed to achieve a given retirement income.

Table 1: Pension under-provision by region

	Average pension pot under-provision, %	Average pension pot under-provision, £	Total gap each year among those reaching age 65 (£bn)
UK	-58%	-£242,546	-£132
London	-63%	-£347,708	-£19
North West	-54%	-£212,532	-£13
South East	-58%	-£265,273	-£20
Yorkshire and the Humber	-59%	-£226,719	-£10
West Midlands	-55%	-£223,521	-£11
East Midlands	-55%	-£210,554	-£9
Scotland	-58%	-£222,533	-£11
East	-56%	-£221,682	-£11
South West	-57%	-£221,199	-£11
North East	-63%	-£236,640	-£6
Wales	-64%	-£279,113	-£8
Northern Ireland	-63%	-£272,629	-£4

Source: SMF modelling, Opinium survey. An online pension calculator was used to estimate the size of pension pot needed to achieve a given retirement income.

Increased complexity in a world of defined contribution pensions

Another consideration is the choices that individuals make at the point of pension pot decumulation, and the costs of making an ill-informed decision – for example, entering drawdown when purchasing an annuity would be a more appropriate option.

Quantifying the scale of ill-informed or sub-optimal decisions at the point of decumulation is difficult, however. This is because the "right" decision depends on a wide range of factors, including an individual's risk appetite, likely life expectancy and what they intend to do over the course of their retirement – for example travel plans and whether or not they wish to downsize and release equity in their property.

Using data from the English Longitudinal Study of Ageing (ELSA), 2014 research by the Pensions Policy Institute (PPI) predicted that 700,000 people reaching the State Pension Age over the next 10-15 years (12% of the total) would be at "high risk" of making poor decisions when they retire, with this group having moderate defined contribution pension savings but no additional defined benefit pension. A further 1.6 million (29% of the total) were estimated to be at "medium risk" of making poor decisions. Risk labels in the study reflected indicators such as degree of dependence on defined contribution pensions, whether an individual had defined benefit entitlement to fall back on and the individual's likely ability to make "good" defined contribution pension decisions based on their levels of financial skill and engagement.[4]

In 2015, the International Longevity Centre also published a report based on an analysis of ELSA data. The study analysed the outcomes of four different approaches to using defined contribution pension wealth: (a) annuitising, (b) blowing the pot on big ticket items, (c) putting everything into a savings account, and (d) leaving the fund invested and using drawdown. The report found that[5]:

- Even if all those approaching retirement were to annuitise, over half of them (1.1 million people) will not be able to secure an adequate income (defined as 70% of final salary), unless they use non-pension assets or receive additional benefits on top of the state pension.
- In a scenario where the defined contribution pot is used to buy big ticket items, an additional 350,000 people (1.4 million people in total) will not be able to secure an adequate income in retirement.
- Putting everything in a savings account also risks people running out of money before they die. Given that people typically underestimate their life expectancy by upwards of four years, spending savings too early is a real possibility.
- Leaving the fund invested also risks people running out of money before death as well as exposing individuals to substantial income volatility. Within a balanced fund of 60% bonds and 40% equities, the report estimated that average annual income in retirement could vary drastically, depending on the fund's performance. If individuals are unprepared for such volatility, it would be akin to significant year-on-year income shocks (e.g., incomes being lower by 30% one year compared with the previous year) which could adversely impact living standards.

CHAPTER THREE – THE VALUE OF PENSIONS ADVICE AND GUIDANCE

The previous chapter showed that a significant proportion of individuals approaching retirement lack confidence in their ability to meet their desired standard of living, and high levels of uncertainty about what is required to get there. Furthermore, among those reporting to be confident, a significant proportion are likely to be *overconfident* and fall far short of what is actually required to achieve their desired lifestyle in retirement. Further, they are likely to make sub-optimal decisions at the point of pension pot decumulation.

This is a highly undesirable state of affairs that will only get worse without significant policy intervention, especially given the continued shift away from defined benefit and towards defined contribution pensions. While auto-enrolment has made great strides in ensuring people hold some kind of pension, there is still enormous work to be done in ensuring individuals are a) saving enough into their pension(s) and b) know how best to utilise their pension pot when they reach retirement age.

Widening access to pensions advice and guidance is crucial, as is improving the quality of support on offer. As we discuss in this chapter, evidence suggests a range of benefits would arise from this.

What types of guidance and advice are available and who uses them?

Individuals have a range of options available to help them make more informed decisions about their pensions.

Firstly, they can employ the help of an independent financial adviser (IFA). According to the Opinium survey commissioned for this research, a fifth (20%) of pension holders aged 50-64 have spoken to a financial advisor about their pension.

As noted in the terminology box of the introduction, "advice" entails a recommendation about what someone should do, based on their personal financial situation and goals. Advice on pensions can only be offered by firms regulated by the Financial Conduct Authority and normally a fee will be charged for advice.

Critically, with advice comes a transfer of liability from the pension holder to the financial adviser: as the FCA notes, advisers are responsible and liable for the accuracy, quality, and suitability of the recommendations they make.[6] If an individual is dissatisfied with the pensions advice they have been given, they can refer complaints to the Financial Ombudsman Service for settling disputes between financial services firms and customers. The ombudsman has power to award compensation to customers.

Further, if an individual has a legal claim against a firm that gave poor pensions advice and has stopped trading, they may be able to obtain compensation from the Financial Services Compensation Scheme.[7]

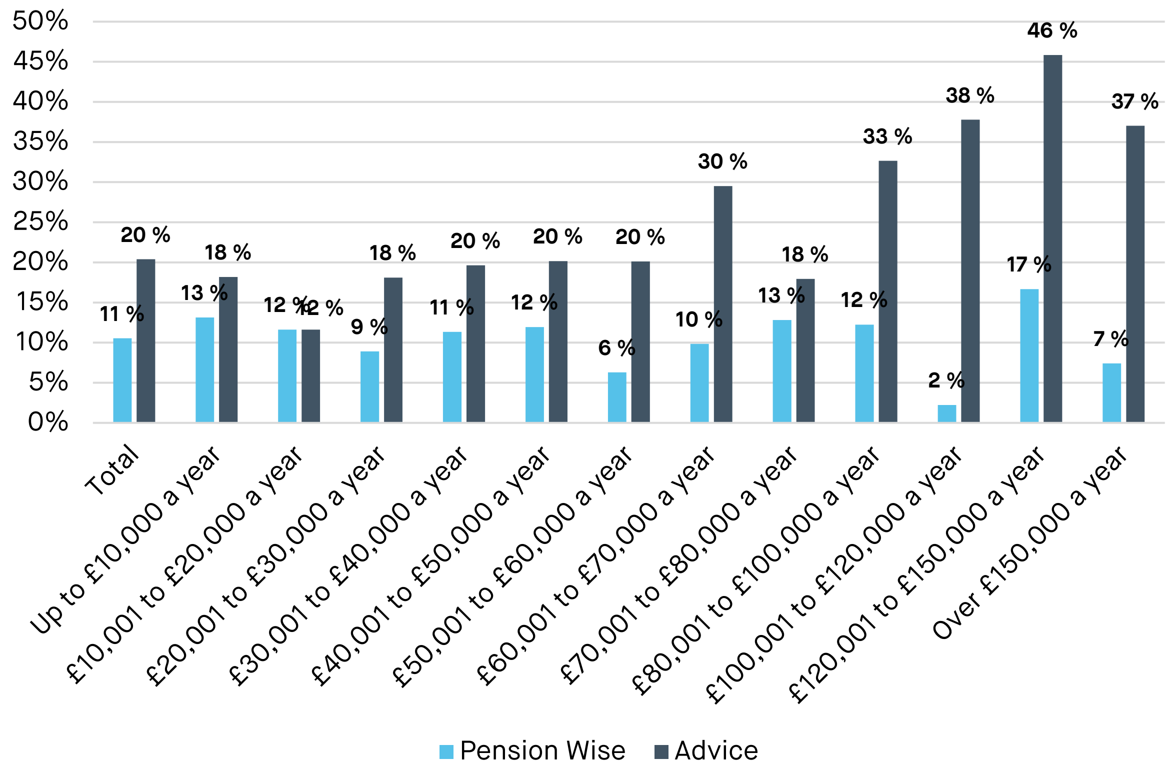
In contrast to advice, guidance on pensions is typically free. However, as noted in the introduction, guidance cannot provide a specific recommendation to an individual. It will not tell you what to do or which products (e.g., annuities) to buy. The information provided is intended to help an individual identify their options.

Anyone can provide guidance, though some organisations providing guidance are regulated by the FCA. If the organisation is not regulated by the FCA, an individual will probably not be able to refer a complaint to the Financial Ombudsman Service. Further, they will not be able to claim compensation from the Financial Services Compensation Scheme. As such, in addition to the lack of specific recommendations, guidance also brings with it fewer protections than advice, should it lead to a poor outcome for the user – e.g., if incorrect guidance leads to them embarking on the wrong course of action when decumulating a pension.

However, with the cost of financial advice a potential barrier, guidance remains an important source of information for pension-holders. This includes through the government's Pension Wise service, which 11% of 50–64-year-old pension holders reported using in the Opinium survey.

Interestingly, reported use of financial advisers is higher than reported use of Pension Wise across almost the entire household income spectrum (barring £10,000-£20,000) despite advice coming at a cost. Having said that, use of financial advice is more pervasive among higher income households.

Figure 12: % reporting use of Pension Wise and advice re: a pension. Findings by household income



Source: Opinium survey

Launched in 2015, Pension Wise was intended to be "a first port of call for consumers, offering free and impartial information and guidance to people with a defined contribution pension approaching retirement".[8] Individuals aged 50 and over with a defined contribution pension are entitled to a free Pension Wise appointment in which a specialist will talk through an individual's options for taking their pension money, how each option is taxed and what their next steps are. The typical Pension Wise appointment lasts 45-60 minutes. Due to the COVID-19 pandemic, no face-to-face appointments are being offered at the time of writing, with delivery of appointments being over the phone.[9] A range of information is also provided on the Pension Wise website.

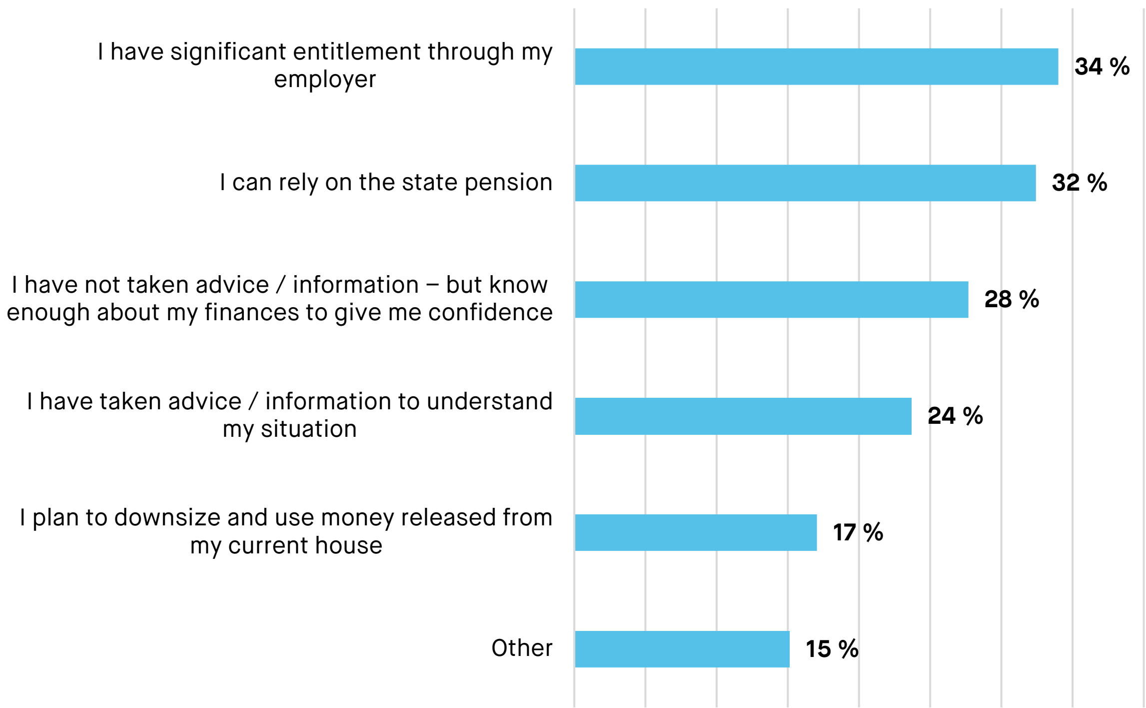
Depending on how broadly "guidance" is interpreted, individuals could be consulting a range of other organisations to help them make more informed pension decisions. Pop-up community participants, for example, cited using information from their pension provider, employer, and websites such as Money Saving Expert.

Reported benefits of advice and guidance

The Opinium survey provides some insights into the value of the advice and guidance currently on offer.

Among those that said that they were confident about being able to meet their desired standard of living in retirement, a quarter (24%) said that this was because they had taken advice or information to better understand their situation.

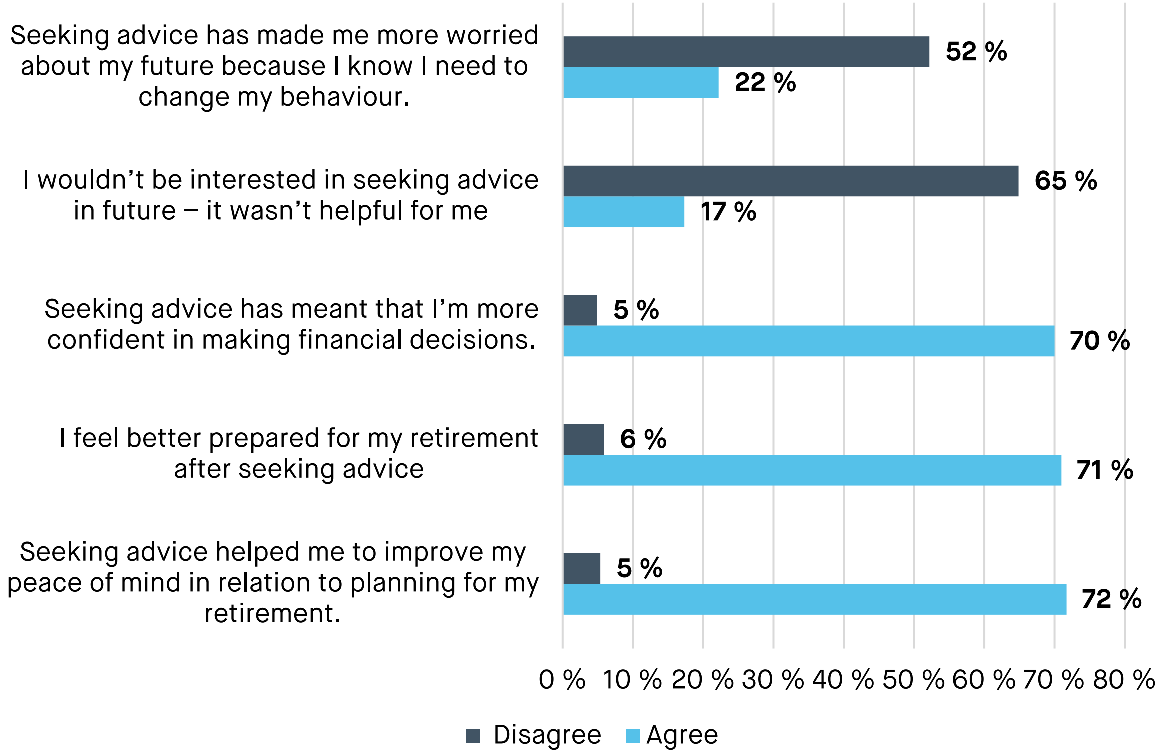
Figure 13: You said that you were confident about being able to meet your desired standard of living in retirement. Why is this?



Source: Opinium survey

An overwhelming majority of those that had spoken to a financial adviser about their pension expressed a positive view. Seven in ten said the advice made them more confident in making financial decisions, with the same proportion saying that they felt better prepared for retirement and had improved peace of mind in relation to planning for retirement.

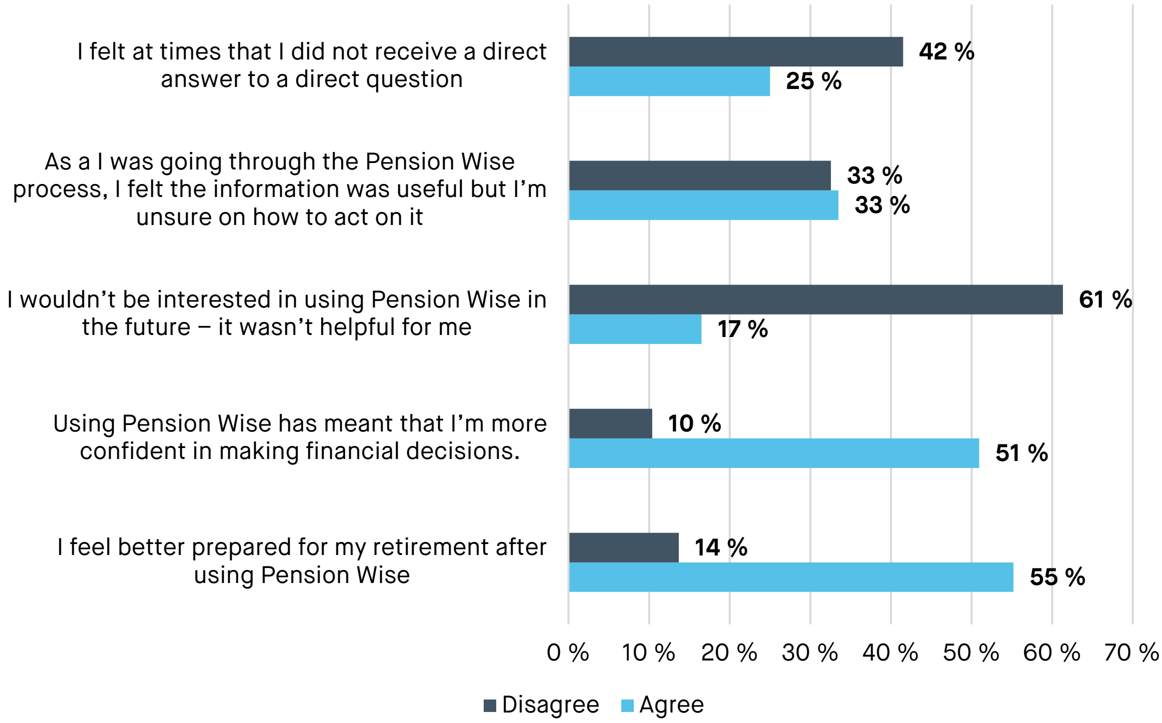
Figure 14: To what extent do you agree / disagree with the following statements when it comes to seeking advice?



Source: Opinium survey

Positive sentiment was also expressed towards the Pension Wise service, among those that had utilised it, albeit to a lesser extent. Just over half (55%) said they felt better prepared for retirement after using Pension Wise, while 51% said that Pension Wise had made them more confident in making financial decisions. However, one in four (25%) said that they did not receive a direct answer to a direct question when using the service, and one in three felt that while the information provided by Pension Wise was useful, they were unsure on how to act on it. While this may in part reflect the nature of guidance – which cannot provide a firm recommendation – it may also point to scope for an enhanced guidance offer in which individuals feel more empowered and informed to take action after receiving the guidance, and where the information provided is more tailored to an individual's specific situation.

Figure 15: To what extent do you agree / disagree with the following statements regarding Pension Wise?



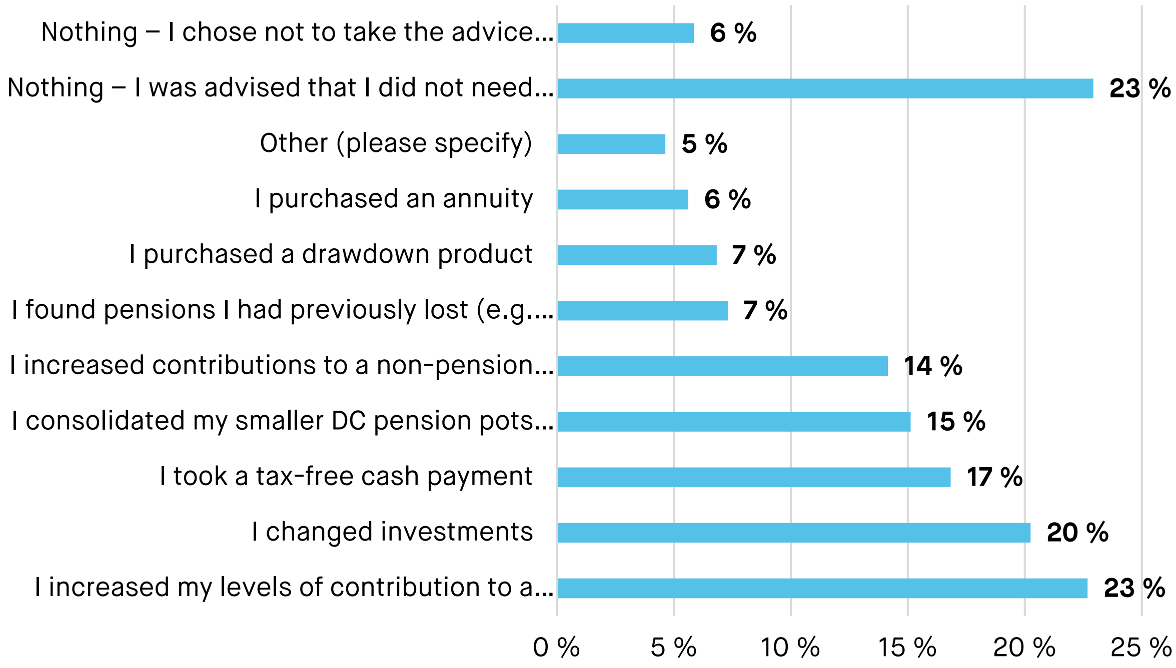
Source: Opinium survey

Just over half (54%) of individuals that had used Pension Wise reported taking no action as a result of using the service. This is notably higher than rates of inaction among those that had used a financial adviser; a quarter (23%) of advice users said they did nothing because they were advised not to take action, while just 6% chose not to take the advice given.

Where action was taken, there were notable differences between Pension Wise and advice among Opinium survey respondents. The most widely cited action as a consequence of using Pension Wise was taking a tax-free cash payment (21%). In contrast, the most frequently given consequence of speaking to a financial adviser about retirement was increasing levels of contribution into a pension pot (23%) and changing investment (20%). One in seven (14% of) advice recipients said that they increased contributions to non-pension investments such as stocks & shares ISAs as a result of seeking retirement advice, suggesting a broad discussion that extended beyond pensions and onto other factors that could shape living standards in retirement.

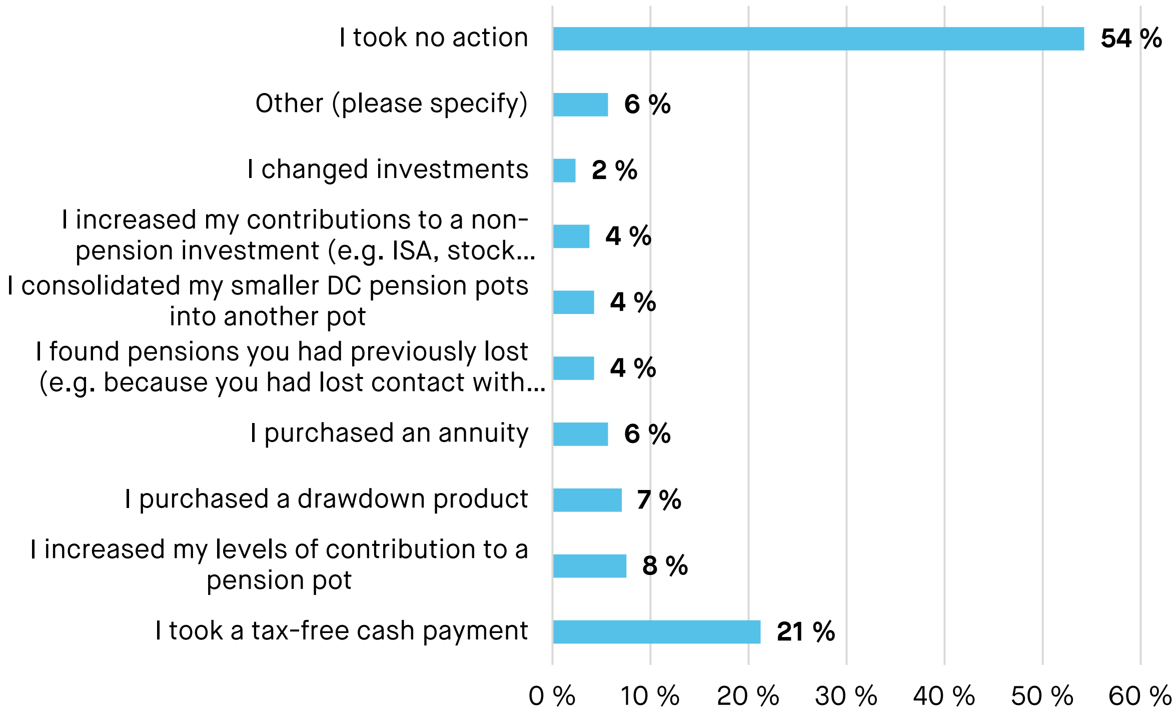
While some of these differences in behaviour are likely to reflect demographic differences between advice and Pension Wise users – e.g., with advice users being more affluent on average – they are also likely to reflect the inherent differences in the services provided.

Figure 16: As a consequence of the advice, did you do any of the following?



Source: Opinium survey

Figure 17: As a consequence of using Pension Wise, did you do any of the following?



Source: Opinium survey

Quantifying the value of advice and guidance

Drawing on the Opinium survey findings, it is possible to quantify and measure some of the benefits realised from utilisation of pensions advice and guidance.

Improved pension planning

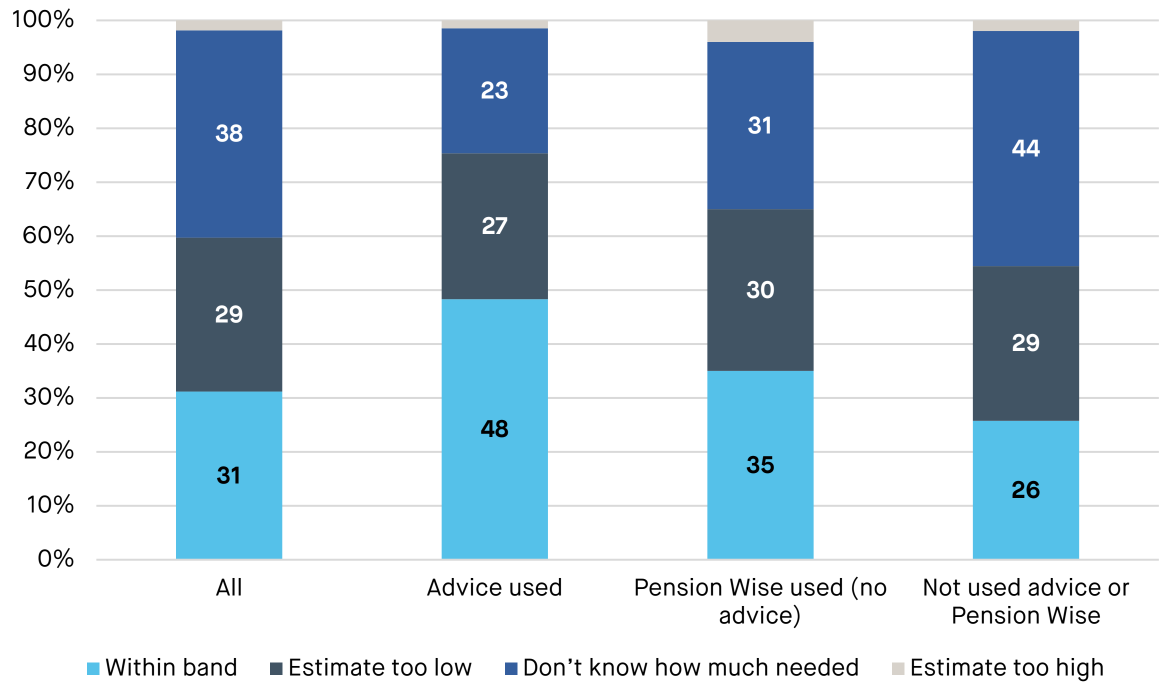
One of the benefits of advice and guidance is having a better understanding of what is required to achieve your desired standard of living in retirement, with users better able to estimate the size of pot they need to reach a given retirement income.

The Opinium survey asked individuals to specify a) their desired retirement income and b) estimate of the size of pension pot needed to achieve such an income. To examine the extent to which these estimated pension pot sizes would achieve the desired income, we used an online pensions calculator to quantify the size of pension pot probably needed for such an income.

Across the whole survey sample, nearly four in ten (38%) said that they do not know how much they will need to achieve their desired income. Three in ten (29%) gave an estimate of the pot size needed which was too low relative to what the pension calculator suggested. Just 31% gave an estimate that was close to what is likely to be required, while 2% gave an estimate that as too high.

Our analysis suggests that use of Pension Wise and, in particular, financial advice, improves individuals' ability to estimate the size of pension pot they will need in retirement. Half (48%) of financial advice users gave a within-band estimate of the size of pension pot they would need, as did 35% of those that had used Pension Wise.

Figure 18: Comparing expectations of pension pot needed to meet desired income standards in retirement, compared to SMF estimates of pot needed



Source: SMF modelling, Opinium survey

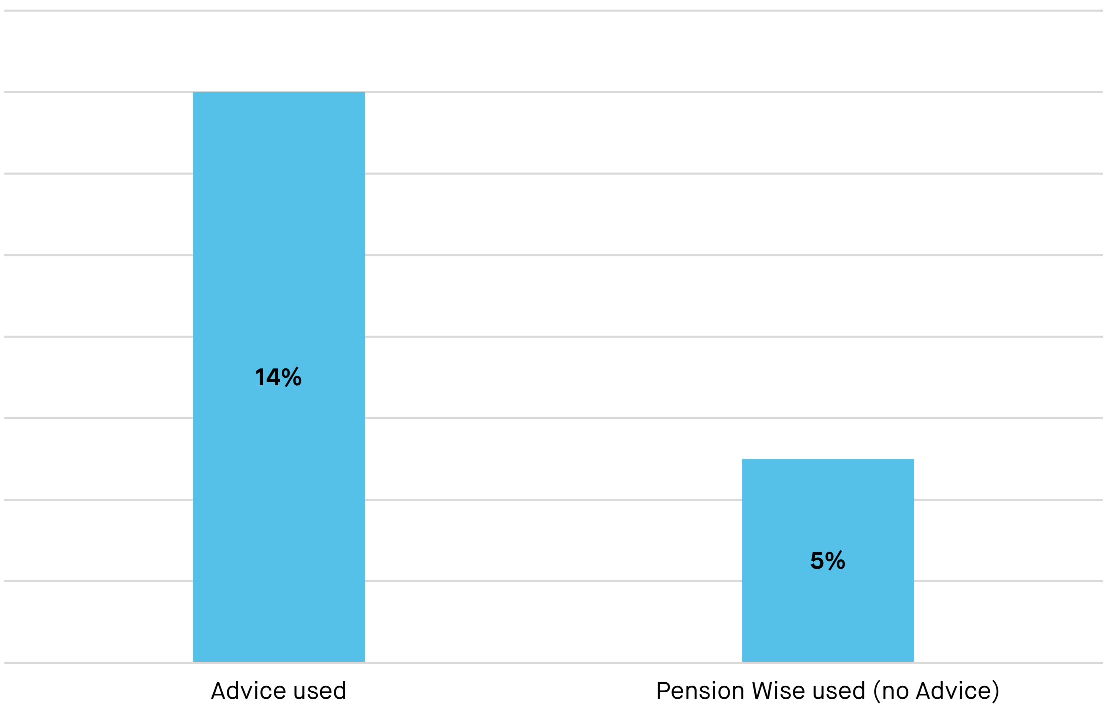
One issue with this data is that the underlying characteristics of individuals using advice, Pension Wise, or neither of these will differ. For example, as noted earlier, financial advice users are more likely to be in higher income households. These differences in characteristics may explain some of the improved ability to estimate size of pension pot needed, rather than the advice or guidance given itself.

To control for these differences, we undertook a regression analysis of the likelihood that an individual would provide a broadly correct (within-band) estimate of the size of pension pot needed to reach their desired retirement income. We controlled for a range of factors, including:

- Age
- Region
- Approach to finance
- Housing tenure
- Household income
- Sex

The regression analysis found that, even after controlling for these factors, people who had taken financial advice were 14 percentage points more likely to have expectations of required pensions pots that were in line with SMF estimates, compared to those that that had used neither Pension Wise nor advice. Use of Pension Wise (without advice) increased the likelihood of accurate expectations by 5 percentage points.

Figure 19: Increase in likelihood of accurate pension pot expectations, by use of Advice and Pension Wise (compared to those who had not used Pension Wise or advice)

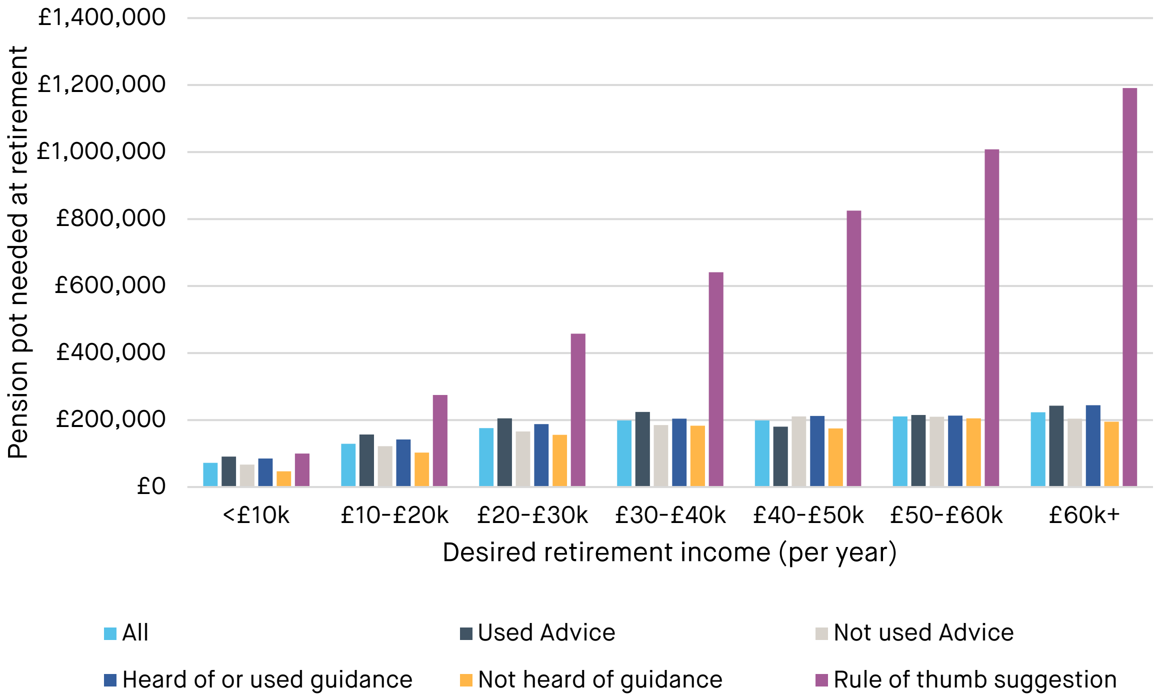


Source: SMF modelling, Opinium survey

Impacts on pension under-provision

Having said that, even though use of financial advice and Pension Wise lead to an improved ability to estimate the size of pension pot needed in retirement, individuals on average still fall far short of the size of pension pot likely to be required in practice – something that holds true across the whole range of stated retirement incomes. In other words, even if people achieve the size of pension pot they expect to need, they would end up falling far short of the income they wish to achieve in retirement.

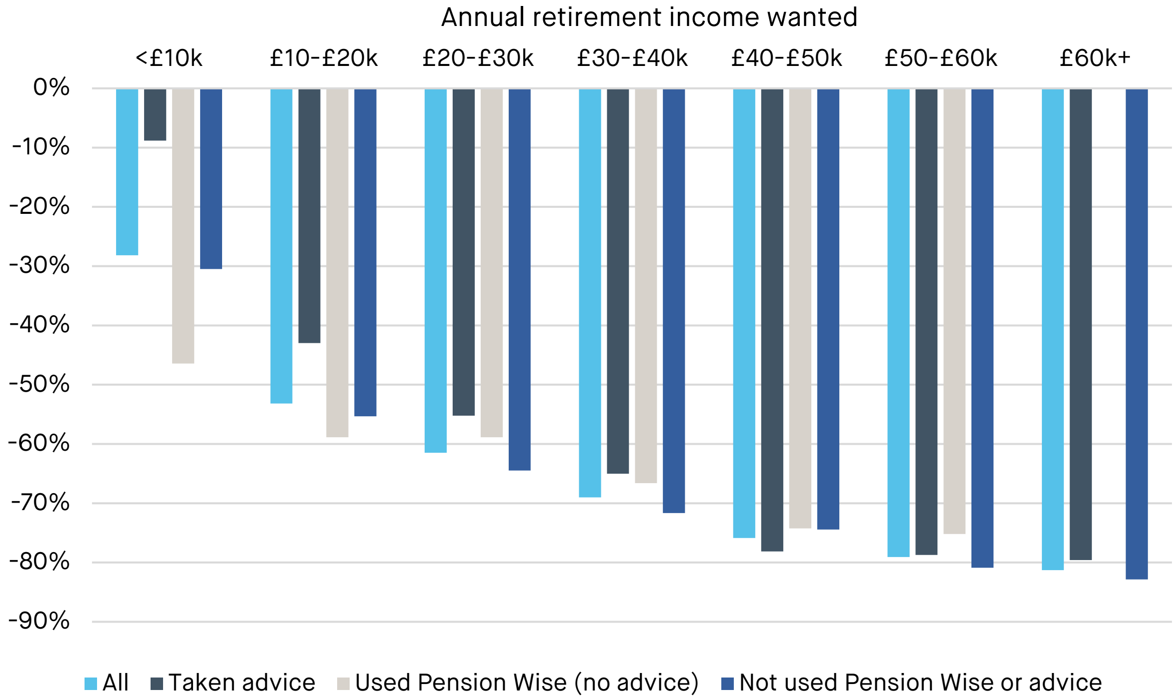
Figure 20: Pension pot expectations compared to that suggested by a rule of thumb



Source: SMF modelling, Opinium survey

Our calculations suggest, however, that the scale of pension pot under-provision is generally lower for those that have received financial advice. Further, we find that this holds true after controlling for differences in the underlying characteristics of financial advice users. After taking into account variations in age, region, approach to finance, housing tenure, income and sex, we found that those using financial advice had potential pension shortfalls that were 4% lower than those who had not used Advice or Pension Wise.

Figure 21: Pension pot under provision (as % of SMF estimated pension pot required) if individual expectations of required pots are met[i]



Source: SMF modelling, Opinium survey

Our findings chime with other studies which have also identified benefits from utilising pensions advice. For example, 2017 research by the International Longevity Centre used longitudinal wealth data to explore the impact of receiving financial advice on an individual's wealth over time – claiming to be the first ever study to quantify the value of taking financial advice on people's overall financial outcomes. The analysis uses a technique called propensity score matching to match respondents across various characteristics, creating two groups that can be used in a similar way to a scientific experiment.The study found that[10]:

- Receiving professional financial advice between 2001 and 2006 resulted in a total boost to wealth (in pensions and financial assets) of £47,706 in 2014/16.
- The benefits of financial advice are potentially greater for those deemed "just getting by" than for those considered "affluent": the former saw a 24% boost to their pension wealth compared to 11% for more affluent groups (those most likely to be advised).
- Evidence also suggests that fostering an ongoing relationship with a financial advisor leads to better financial outcomes. Those who reported receiving advice at multiple points in time had nearly 50% higher average pension wealth than those only advised at the start.

[i] Note: missing value for £60k+ used Pension Wise (no advice), as sample size was insufficient.

Impacts on decumulation

Our analysis above focuses on the *accumulation* phase of retirement and the extent to which advice or guidance may be able to improve an individual's ability to estimate and achieve a size of pension pot needed to meet their desired level of retirement income.

Another key benefit of advice and guidance is likely to be an ability to make improved decisions at the point of pot decumulation. As noted in the previous chapter, other research suggests that as many at 12% of individuals approaching retirement over the coming years are at high risk of making poor decisions in retirement, while 29% are at medium risk. Risk factors include a significant reliance on defined contribution rather than defined benefit pensions, as well as low levels of financial capability.

Quantifying the financial costs of a poor decumulation decision is difficult, especially as it may take a significant period of time before the impact of a poor decision is apparent. For example, someone drawing down money from their pension pot at too rapid a rate might enjoy a comfortable retirement for a decade or more, only to face hardship further down the road as their pension pot runs dry. Another complication is that the "right" decision at decumulation depends on factors that are not well captured in official datasets, such as an individual's risk appetite, or how long they expect to and are likely to live.

However, it is possible to highlight the potential costs of a poor decision-making, and the scope for advice and guidance to help, by way of illustrative example:

Illustrative example 1: Agatha

Agatha is 65 years old and has a defined contribution pot worth £100,000. She is an inherently risk averse individual and her instincts suggest that she should purchase an annuity, given that it would provide a guaranteed, regular income.

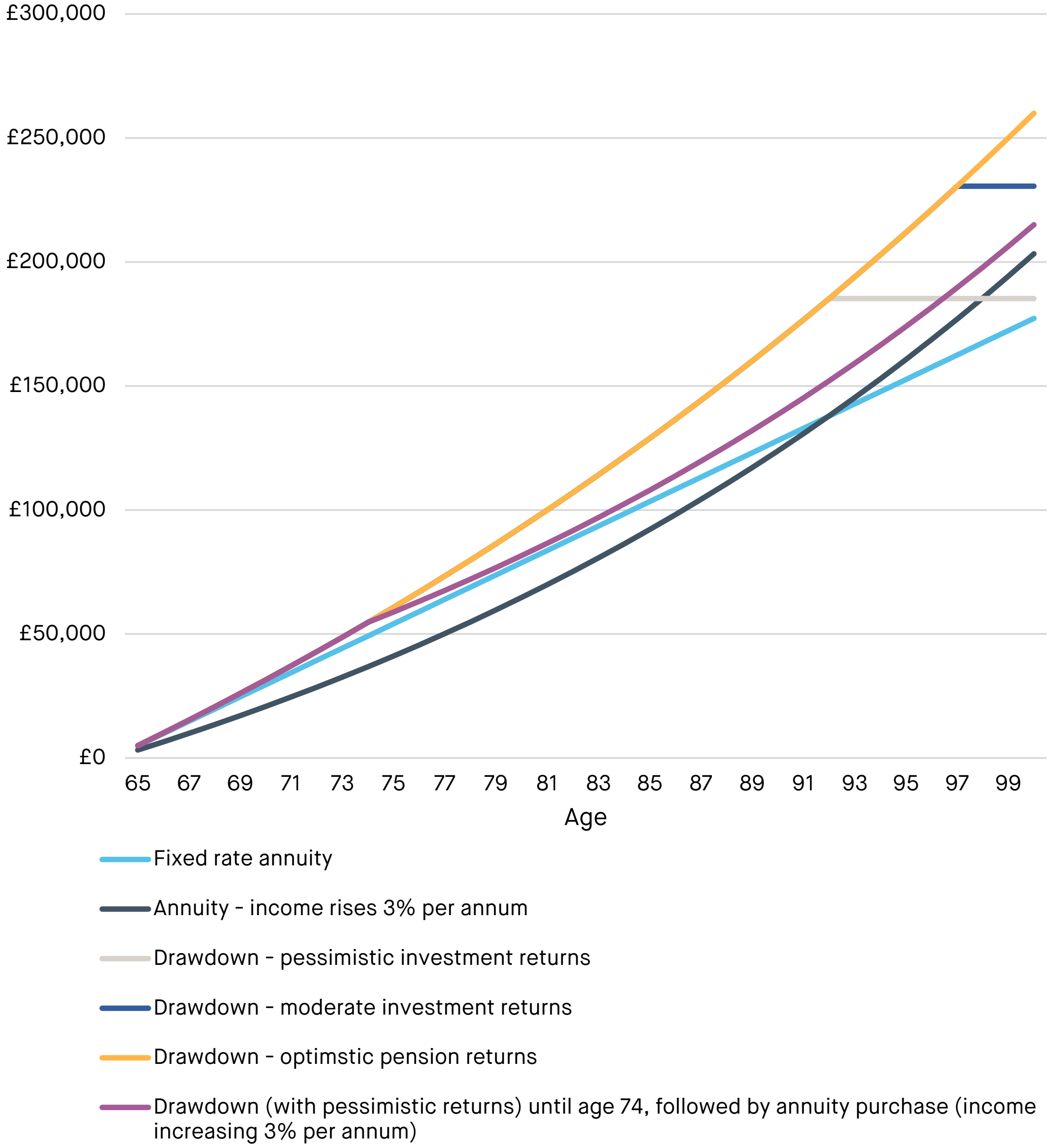
Agatha proceeds down the annuity route and purchases a product giving her a fixed annual income just shy of £5,000 per annum.

While Agatha may be confident that she has made the right decision in her early years of retirement, there are aspects of this decision that she could come to regret. Firstly, not appreciating the effect of inflation on her real income, Agatha is set to see her standard of living squeezed as the cost of living rises over the coming years. By the time Agatha turns 80, her inflation-adjusted income from the annuity will by 26% lower than when she first retired (assuming inflation averages 2% per annum). If she lives to 90, it will be 39% lower.

Further, despite having a spouse and children, Agatha has purchased an annuity that would transfer no income to a beneficiary in the event of an early death.

Access to guidance or advice could have equipped Agatha with the information needed to make a choice better suited to her needs. For example, receiving information about the impact of inflation on living standards could have led to her purchasing an index-linked annuity. Alternatively, if she had used an online drawdown tool, she may have realised that, despite her risk aversion, drawdown may have been a more appropriate course of action, yielding a higher income and allowing beneficiaries to use whatever is left in her pension pot at the time of her death. Or she could drawdown in the early years of her retirement and purchase an annuity when she reaches the age of 75, providing some guarantee of a continued income should she live longer than expected.

Figure 22: Drawing down for the entirety of her retirement, or delaying annuitisation until age 75 would be likely to improve Agatha's cumulative private pension income in retirement, even under a pessimistic scenario for pension returns.



Source: SMF calculations. Estimates of annuity and drawdown income based on online calculators

Illustrative example 2: Fred

Fred was automatically enrolled into a pension for the first time in the later stages of his working life and has a defined contribution pension pot of £20,000. He is unsure of how best to use his modest pot. Fred is aged 65, single, and has no children – his main concern is making ends meet in his retirement.

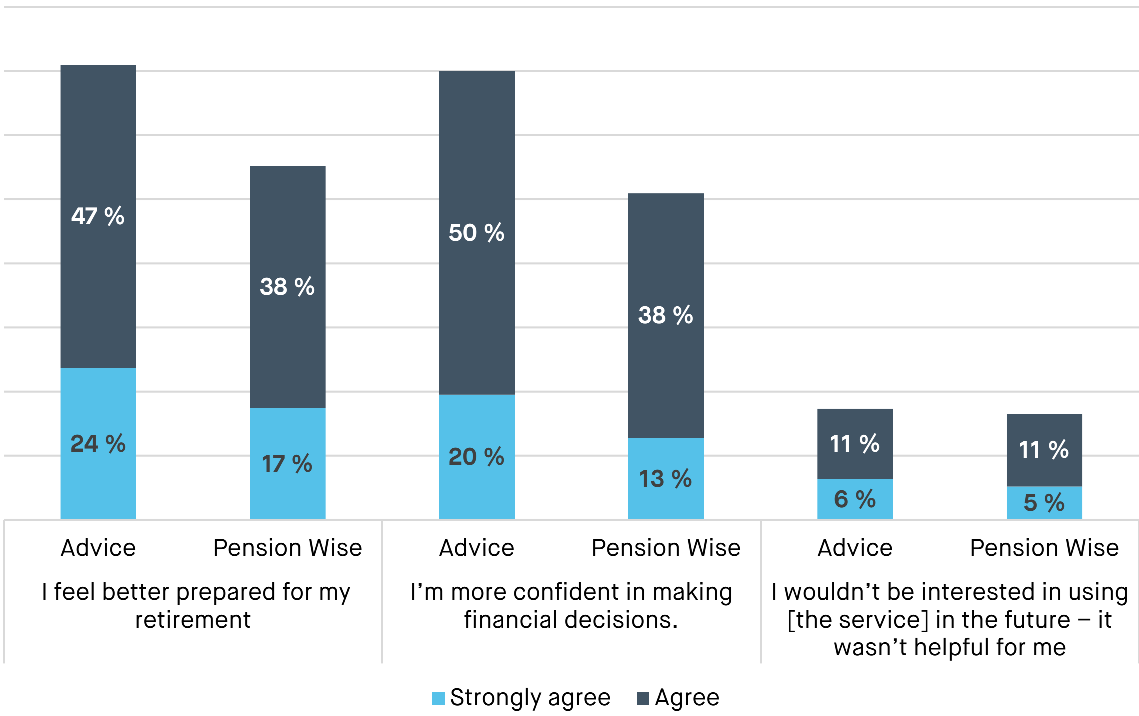
While Fred's pension pot is limited, he owns his home outright and has benefited from house price appreciation over his life. His home is valued at £300,000. Fred likes his house and ideally would like to stay there for the rest of his life.

One option available to Fred, unknown to him, is the ability to engage in equity release to receive a lump sum payment which he can use to support his retirement, complementing his defined contribution pension pot. This option might only become known to him through speaking to a financial adviser or receiving holistic guidance that considers his broader financial position beyond his pension wealth alone.

The benefits of advice and guidance are not just financial

Lastly, it is important to note that the positive impact of advice and guidance extend beyond the financial. For example, the Opinium survey found that seven in ten (71%) of those that had used financial advice felt better prepared for retirement, and the same proportion (70%) felt more confident in making financial decisions. Those are both higher than equivalent for those using the government's Pension Wise service, though such positive sentiment was also expressed by a majority of users.

Figure 23: Views on the impact of advice and Pension Wise



Source: Opinium survey

CHAPTER FOUR – BARRIERS TO RECEIVING AND UTILISING ADVICE AND GUIDANCE

The previous chapter presented a range of evidence suggesting that using pensions advice and the government's Pension Wise service improves financial outcomes. Given this, why are these services only used by a minority of individuals approaching retirement? What are the barriers preventing more organisations providing pensions guidance?

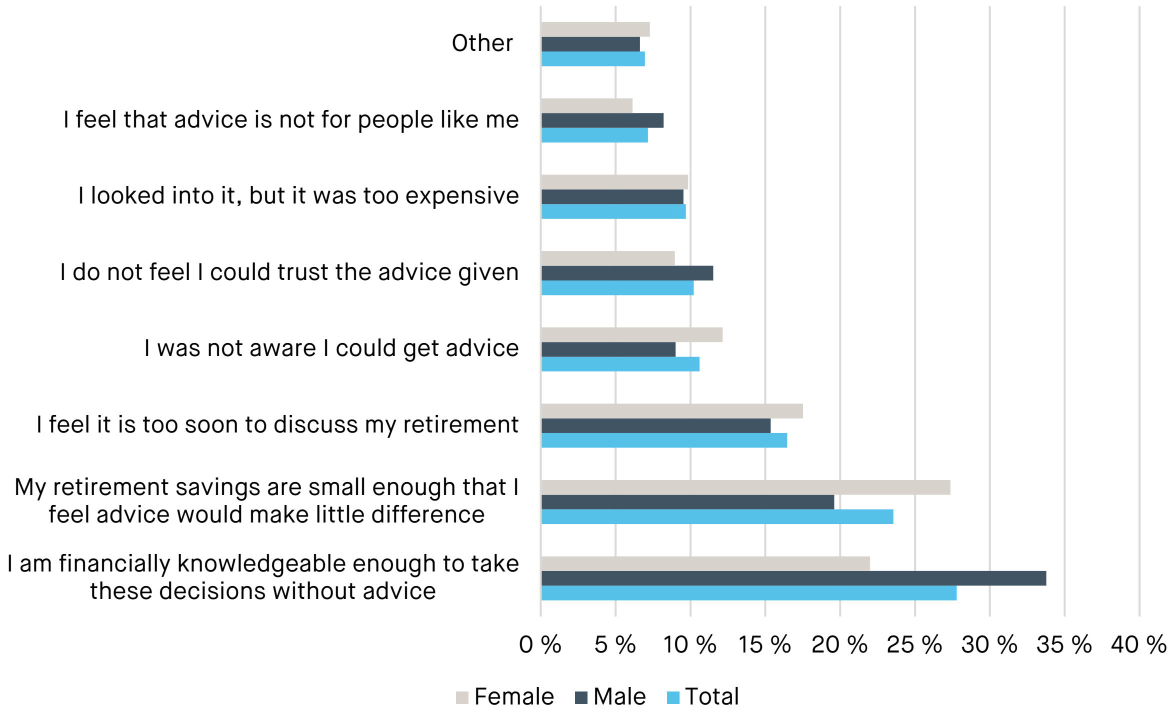
In this chapter, we explore the range of barriers that exist and hinder access to guidance and advice.

Overconfidence as a barrier

In the Opinium survey, the most frequently cited reason for not speaking to a financial adviser was feeling financially knowledgeable enough to take decisions without advice (28%), with this driven by men (34%) rather than women (22%). Indeed, among women, the most cited reason was feeling that the individual's retirement savings are too small for advice to make much of a difference (27%).

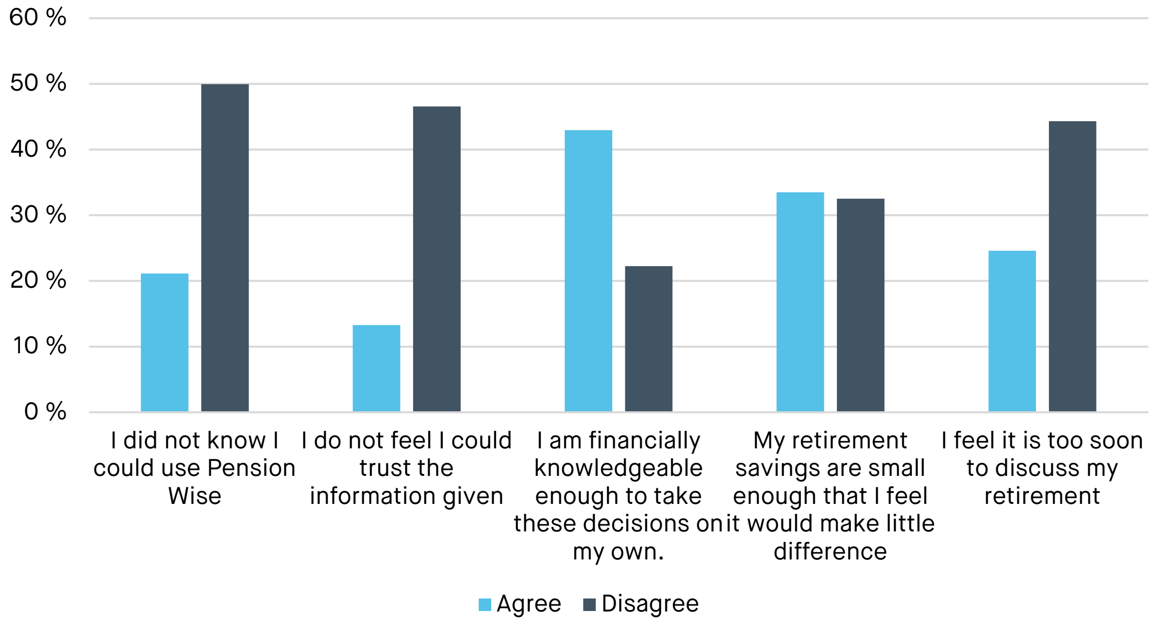
Feeling knowledgeable enough was also the most cited reason in the survey for not using the government's Pension Wise service.

Figure 24: You mentioned that you did not receive advice about your pension. What are the reasons for you not accessing advice?



Source: Opinium survey

Figure 25: You mentioned that you have not used the government's Pension Wise service to discuss your pension. To what extent do you agree or disagree that the following were reasons for not use the service?



Source: Opinium survey

Given the findings presented earlier in this report that a significant number of individuals overestimate the size of pension pot they need in retirement, and evidence that there is a large cohort of individuals at medium-to-high risk of making poor decisions upon retiring, overconfidence in one's situation is likely to be a key barrier to utilising a financial adviser or some form of pensions guidance.

A perhaps overconfident feeling of certainty about one's ability to live well in retirement was also reflected in the online pop-up community, where individuals generally felt that their pension will last. Some were optimistic that even if they ran out of pension wealth – e.g., from drawing down too rapidly – they could appeal to other financial options, such as using savings elsewhere, engaging in equity release or funds from family support or inheritance:

> *"My pension pot will certainly be enough and will be added to when I reach state pension age. Any shortfalls can be made up by my savings."*
>
> *"I think my pension pot should last, but if not, I am mortgage free so would think about equity release. I think it should last as my pension pot should cover my monthly pension for at least the next 20/30 years."*
>
> *"Yes, I would be able to make my pension pot last as I often am quite content in spending just for basic expenses and not leading an extravagant life. Should it be needed, I would have sufficient funds from family support if my pension pot runs out, as well as family inheritance I can claim whenever."*
>
> \- *Quotes from pop-up community participants*

Individuals may simply not understand *why* they need advice or guidance with respect to their pension. As an attendee of an expert roundtable held as part of this research put it:

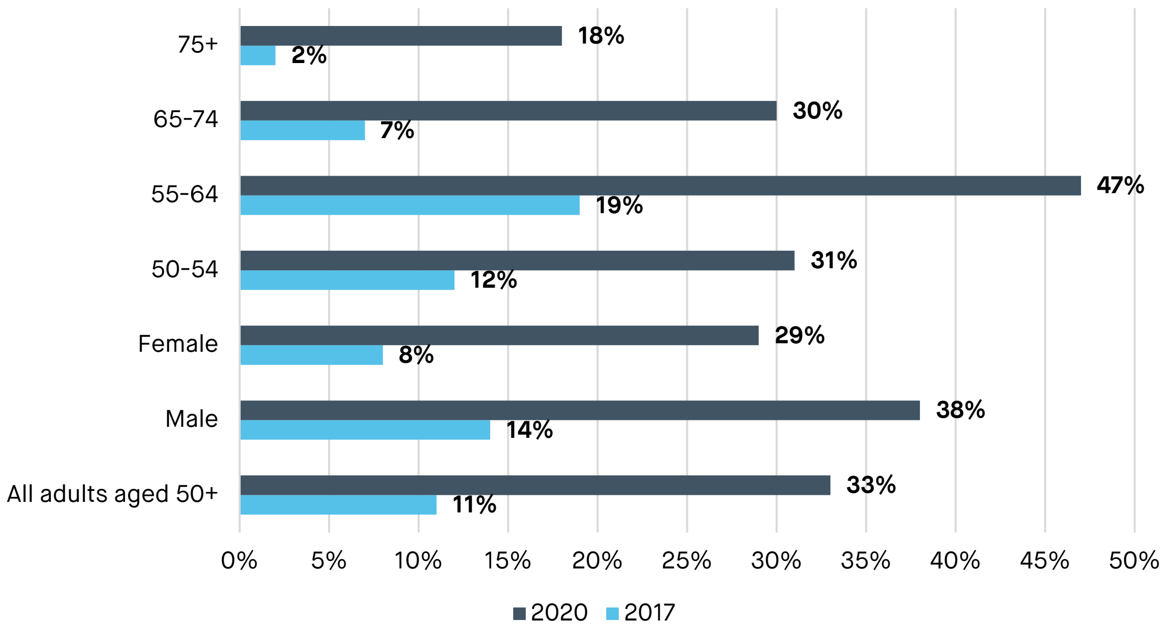
> *"A lot of people that need advice or Pension Wise with low financial capability are likely to not understand *why* they need it. They only understand once they're speaking to an adviser."*
>
> \- *SMF roundtable participant*

Our finding that overconfidence is a likely barrier to receiving support aligns with research by Ignition House commissioned by the FCA. This showed that the most frequently cited reason for not taking regulated advice over a period of 12 months, after having no need to do so (50%), was individuals deciding they could make decisions on their own (29%). Notably, this was significantly higher than the proportion saying they did not take advice because they could not afford to do so (10%) – despite perceived or actual cost often being mentioned in the policy discourse as a barrier to receiving advice.[11]

Lack of awareness about what is on offer affects usage...

Another barrier to receiving support when it comes to pension decision-making is a lack of awareness of what is currently on offer. The Ignition House study mentioned above found that across adults aged 50 and over in 2020, just one in three (33%) had heard of Pension Wise, though this rises to about half (47%) among those aged 55-64. While awareness levels have increased significantly since 2017, as shown in the chart below, that still leaves a significant proportion – indeed a majority – of older individuals unaware of the government's own pensions guidance service.

Figure 26: Awareness of Pension Wise among adults aged 50 and over, 2017 and 2020



Source: Ignition House research for the Financial Conduct Authority.

Regulatory barriers to provision of advice and guidance

Even when individuals are aware of and utilise the pensions guidance currently on offer, it may not be of sufficient breadth and tone to give individuals the information and confidence needed to make good decisions about their retirement. As noted earlier, one in three Opinium survey participants that had used Pension Wise felt that while the information provided by the service was useful, they were unsure on how to act on it.

For organisations providing financial guidance, there is a delicate balancing act: the more useful and actionable the insights provided through guidance, the greater the risk of inadvertently crossing the threshold into giving what the FCA deems to be "advice" – something we have noted can only be provided by firms regulated to do so.

It has been argued, for example, that the FCA's recent guidance for employers on providing pensions support "leaves grey areas" and that articulating corporate messaging about pensions correctly remains a risk.[12]

This risk of falling foul of regulation can in turn reduce the number of firms offering guidance. A view expressed by some at an expert roundtable held as part of this research was that the concept of "guidance" is not well-defined by the FCA, with the boundary between advice and guidance open to interpretation.

Some roundtable participants noted that there were also pressures limiting access to financial *advice*, with increased regulatory costs placing pressure on the IFA industry and leading to some advisers exiting the market. The Financial Conduct Authority recently confirmed advisers will pay a total amount of £82.3 million in regulatory fees for the 2021/22 financial year.[13]

At the roundtable, some participants agreed that the current regulatory environment may be overly focused on providing "the very best outcome" for a small number of individuals, allowing those that can afford financial advice to benefit from the range of protections that come with this regulated product. However, this approach, through being tightly prescriptive, may inhibit the ability of a broader range of individuals to get an "acceptable outcome" through a wider range of guidance and advice being available. While this may not be as good at the very best outcome (paid-for financial advice with a range of protections), it would still be an improvement on the status quo in which many people engage with their pensions with little to no support.

> *"We might want to look at how people can get an "acceptable outcome" for more people rather than "very best outcome" for small number of individuals – in context of pensions specifically."*
>
> \- *SMF roundtable participant*

CHAPTER FIVE – RECOMMENDATIONS

As things stand, a significant proportion of the population are at high risk of making poor decisions with respect to their retirement. They are unlikely to be saving enough to meet their desired standard of living, and those with defined contribution pensions are likely to lack sufficient support to make an informed decision about how best to utilise their pension pot.

While guidance and advice can improve outcomes, there are numerous barriers to the provision of both, and issues with getting the public to engage with such services. Below, we set out a range of policy recommedations to address these barriers.

Recommendation 1: Expand Pension Wise's offer

As things stand, Pension Wise has high satisfaction ratings – according to an evaluation by the Money and Pensions Service, nine in ten Pension Wise appointment customers (89%) feel they have learned something new as a result of their appointment.[14] However, while the Opinium survey we commissioned also shows a range of positive sentiments expressed, at the same time it suggests a significant proportion of users are unsure how to translate the information provided by Pension Wise into actionable steps. In the Opinium Survey, a majority of Pension Wise users took no action after using the service.

As one participant in our expert roundtable put it:

> *"People want to know what the answer is, but you can't tell them... Pension Wise is great, but it does not do the one thing that people want."*
>
> \- *SMF roundtable participant*
> \-

Consideration should be given to the scope of the Pension Wise service, both in terms of what is on offer and who has access to it. The guidance on offer needs to be more tailored to an individual's circumstances – increasing the chance that it translates into action. Further, more guidance could be given on the accumulation phase of pensions, with Pension Wise providing individuals with tailored guidance on the level of savings they are likely to need to reach a given level of pension income.

This could coincide with the opening up of Pension Wise, allowing all of those over the age of 40 or 45, with a defined contribution pension, to book a Pension Wise appointment, rather than just those over the age of 50, as at present. This would give individuals more time to correct for any inadequacies in their current retirement planning – for example, by ramping up contributions into their pension pot or changing any non-pension investments.

One roundtable participant noted that Pension Wise's digital offer is currently lacking, which can be a barrier to engagement with guidance for those that do not want to undertake a 45–60-minute phone appointment:

> *"We need to make Pension Wise far more engaging. The website is dire and you are forced into a call rather than being able to do things online. We know people don't want to do this over the phone … this is a scary topic … there needs to be a better digital route."*
>
> \- *SMF roundtable participant*

Policymakers need to invest in making Pension Wise's online offer more navigable, usable, and useful – creating a more engaging website in which individuals can easily access information relevant to them, without needing to resort to a phone appointment. This could include through investment in a "robo guidance" platform in which individuals are directed towards highly relevant, tailored information based on the information they provide about their specific circumstances. Ideally, this should include "robo modelling", in which individuals are presented with visualisations of how different retirement options (e.g., purchasing an annuity or entering drawdown), could play out under a range of circumstances (e.g., various life expectancy scenarios). There is growing interest in providing consumers with access to such modelling tools, and there has been discussion of building them into pension dashboards provided by the Money and Pension Service (MaPS) and others.[15]

As the House of Commons Work and Pensions Committee's recent report on accessing pension savings has noted, "most guidance is currently delivered by individuals, which is costly, or through written communication, which is unengaging."[16] An enhanced digital guidance offer has the potential to reduce the costs of service provision, reach more individuals and improve financial outcomes.

Recommendation 1: Expand Pension Wise's offer

Policymakers should explore the case for expanding the scope of Pension Wise in two key ways. Firstly, providing tailored guidance on the level of pension savings likely to be needed to achieve a given retirement income. Secondly, allowing all of those over the age of 40 or 45 with a defined contribution pension to book a Pension Wise appointment, rather than just those over the age of 50 as at present.

Further, Pension Wise's online offer needs to be improved, including through the provision of "robo guidance" and "robo modelling" that provides individuals with highly relevant information and a clear visualisation of the potential impact of different options on their financial position in retirement.

Recommendation 2: Improve how guidance and advice are defined to broaden what is on offer

We are keen to see a broader pensions guidance landscape, in which individuals have more choice of high-quality guidance. Pension Wise needs to be bolstered, but that should be complemented with a wider and more enhanced offer elsewhere.

We discussed in the previous chapter the potential role that regulation plays in curtailing provision of guidance, given concerns about falling foul of the regulation and straying into giving advice. As the recent Work and Pensions Committee report has noted, "the line between advice and guidance is a continuing issue of debate".[17] This raises questions about the extent to which revisiting the definitions of advice and guidance would lead to an improved offer for consumers.

The Committee notes that there is likely to be demand for something that sits between "guidance" and "advice" and has recommended that the FCA sets out definitions of "enhanced guidance" and "limited advice" as follows:

- **Enhanced guidance –** guidance on the options available to an individual which is tailored to an individual dependent on the information they provide, without a recommendation. This would not be a regulated activity.
- **Limited advice –** a recommendation made to an individual based on limited or partial information about them.

While we can see the merits of such an approach in terms of empowering more organisations to provide advice or guidance, there is a risk that, through creating additional definitions, the landscape from the perspective of the consumer becomes more confusing. An alternative approach, which we endorse and was previously recommended by the Independent Review of Retirement Income, is that in which there would be just two categories of information, guidance, and advice: "personal recommendation" and "financial help", with the latter replacing everything that is not fully regulated fee-based advice where the adviser takes responsibility for the recommendation.[18] This would leave pension-holders with three routes to take when they reach retirement:

- **Execution-only route –** in which the pension-holder makes all the decisions themselves.
- **Financial help route –** where the pension-holder is helped or steered towards tailored options using a decision tree
- **Personal recommendation route –** in which individuals receive a specific recommendation from an FCA-regulated adviser.

There is a strong case for revisiting the definitions of advice and guidance, as per the suggestion above. At the very least, the FCA should provide clearer information on its current definitions, including concrete examples of what constitutes "guidance" and "advice". This should include through provision of "gold standard" examples of guidance that is highly informative and actionable, without straying into advice territory. This would give organisations more confidence to bolster their guidance offers without fear of breaching regulation.

Recommendation 2: Improve how guidance and advice are defined to broaden what is on offer

At a minimum, the FCA should provide clearer information on its current definitions, including more concrete examples of what constitutes "guidance" and "advice". This should include through provision of "gold standard" examples of guidance that is highly informative and actionable, without straying into advice territory.

Ideally, the FCA should go further and adopt new definitions along the lines of those suggested by the Independent Review of Retirement Income. This would see two categories of information, guidance and advice: "personal recommendation" and "financial help", with the latter replacing everything that is not full regulated fee-based advice where the adviser takes responsibility for a recommendation. Such an approach would give organisations more confidence to offer enhanced forms of guidance without falling foul of regulation.

Any review of definitions should involve extensive stakeholder engagement – including with consumer groups, pension providers and financial advisors – to best ensure that issues with the current framework are resolved.

Recommendation 3: Changing the norms around guidance and advice

Lastly, steps need to be taken to change the norms and defaults that surround accessing one's pension pot, use of guidance or advice becoming the norm rather than the exception.

Policymakers have explored the potential to use "nudges" to increase use of guidance. The Behavioural Insights Team (BIT) was commissioned by the Money and Pensions Service (MaPS) to evaluate the impact of "Stronger Nudge" interventions on the number of people who receive Pension Wise guidance before they access their pension savings. The key components of the Stronger Nudge were to "explain the nature and purpose of the Pension Wise guidance, increase the prominence of the guidance during the call [with the pension provider] by offering it as a normal part of the pension access journey, and to make it easy for pension savers to book a Pension Wise appointment".[19]

The interventions were delivered by call handlers at three pension providers. When pension savers called to access their pension or to enquire about their pension options, call handlers used a pre-defined script incorporating wording to nudge people to take a Pension Wise appointment. Two different interventions were tested; one group was offered to have the call handler book the customer a Pension Wise guidance appointment, the other was offered a warm transfer to Pension Wise who would book an appointment for them. Once the pension saver was transferred to Pension Wise, call handlers delivered a similar pitch which aimed to nudge the caller to book an appointment. These interventions were tested against the "business as usual" signposting process which typically involved signposting pension savers to the Pension Wise website or appointment booking line.

Both interventions appeared to have an impact. Of those pension savers who had not received guidance or advice in the previous year, approximately 11% received Pension Wise guidance as a result of the interventions in comparison to approximately 3% in the business as usual control group. There was no evidence of a significant difference between the two interventions.[20]

While this suggests stronger nudges can improve on the status quo, it also suggests that there are limitations to what can be achieved with this approach: even with additional nudging, a majority did *not* receive Pension Wise guidance, and the Work and Pensions Select Committee has noted that stronger nudges "will not be enough to make receiving pension guidance the norm".[21]

An alternative, stronger, approach would be to draw on the successful experience of pension auto-enrolment and change the default on receiving guidance. Individuals about to access their pension pot could be expected to use some form of guidance before doing so – for example, their pension provider could be expected to signpost them towards a range of guidance or advice services and request that they use at least one of these before accessing their pension – or explicitly opt out of receiving support.

Some will see such an approach as controversial, but it may be necessary to deliver a step change in utilisation of guidance and advice. The ability to opt-out means that individual liberty would be retained, however – it is merely the default that would change.

One concern expressed at the expert roundtable was the risk of individuals not taking guidance appointments seriously under such an approach – for example, not attending appointments they agreed to. There was particular concern about the burden this could impose on the government's Pension Wise service. However, this too seems a surmountable challenge, particularly if a change in the default coincides with enhanced *online* guidance, in which the marginal cost of providing support to more individuals is modest, as we recommended earlier.

Recommendation 3: Changing the norms around guidance and advice

Given the complexity of decision-making at the point of accessing a pension pot, using guidance or advice should be made the default. Before accessing their pension pot, individuals should be requested by their pension provider to use some form of guidance and advice, and signpost individuals to a range of options, including online tools. As well as services offered by the pension provider, there should be signposting to Pension Wise and non-provider services, in order to build trust and give consumers choice.

Individuals would have to explicitly say that they do not want support in order to access their pot without advice or guidance.

Recommendation 4: Launch a nationwide pensions awareness campaign

Firstly, the Government needs to tackle head-on the fact that a significant proportion of individuals appear overconfident in their ability to make ends meet in retirement, and to make decisions about their pension without consulting guidance and advice. A significant proportion are also confused, unsure about both how much they need to be saving and of their options upon retiring.

This can only be addressed through a multi-pronged awareness campaign that clearly informs the public that:

- They should be looking beyond the State Pension in isolation to support their retirement.
- There is a strong chance they are not saving enough into their pension to meet their desired pension income.
- There are complexities around what to do at the point of pension pot decumulation and they should seek support to navigate their options.

The campaign needs to be delivered through advertising across a range of media channels. It should be delivered through a partnership between government, industry, and the third sector, ensuring common messaging.

The Government should also explore whether there are "teachable moments" in which individuals may be particularly receptive to receiving information about the need to engage with their retirement plans – for example, at the point of changing job, being enrolled into a new pension, or major life events such as having a child. Those approaching the age of 75 could also be prompted about risks associated with longevity and the case for annuitising any pension pots.

Although the campaign should highlight the risks associated with failing to engage with one's pension, or seek support, it needs to be careful not to scare people into resignation. While the messaging needs to be strong enough to capture people's attention, it needs to be complemented with signposting to sources of information, advice and guidance where individuals can embark on a process of greater engagement with their retirement.

A public awareness campaign could yield a significant return on investment for policymakers and campaigns have been shown to deliver in the past on issues such as raising awareness of cancer symptoms[22] and Pension Credit uptake[23].

Recommendation 4: Launch a nationwide pensions awareness campaign

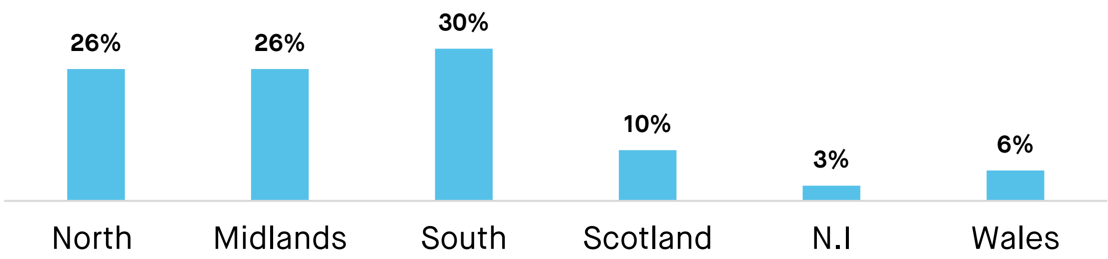
The Government needs to invest significant resource into a nationwide pensions awareness campaign which brings home the need for individuals to prepare for retirement, makes them aware of the complexity of the decisions they face when accessing their pension pot and signposts them to support. It should be delivered through a partnership between government, industry, and the third sector, ensuring common messaging.

APPENDIX – ABOUT THE SURVEY AND POP-UP COMMUNITY

To support this research, the SMF commissioned a quantitative survey and a qualitative online pop-up community from Opinium.

For the quantitative survey, 2,011 UK adults aged 50-64 with a pension were interviewed. The survey took place between 26th November and 1st December 2021.

The qualitative online pop-up community had a total of 30 respondents aged 50-64 with a pension. The study ran between the 17th and 21st December 2021. Half of participants (50%) were male, and half (50%) were female. Just under a fifth (17%) had used an independent financial adviser. The regional breakdown of participants was as follows:



ENDNOTES

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