

A Guiding Hand: Improving access to pensions advice and guidance

TWO MINUTE SUMMARY

February 2022

SMF

Social Market
Foundation

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This report calls on the Government to improve access to and quality of pensions advice and guidance to reduce the risk of financial harm caused by under-saving as well as sub-optimal decisions made at the point of decumulating a pension pot.

Informed by a recent expert roundtable and new polling evidence, the report highlights the inadequacy of current pensions and guidance infrastructure. It warns that without wider access to advice and guidance, a significant number of households will retire with insufficient pension provisions and are

KEY POINTS

- **The status quo is bad for people.** The shift towards defined contribution pensions has increased uncertainty about retirement income, adding to the feelings of confusion.
- **Advice and guidance help people by:** increasing understanding of the subject, encouraging saving and helping individuals make better decisions around what to do with their pension pot upon retiring.
- **Regulatory barriers are likely to be holding back provision.** The risk of falling foul of regulations (e.g., by inadvertently veering from “guidance” into “advice”) can reduce the number of firms offering guidance.
- **The report concludes with a set of policy recommendations,** including expanding the scope of the government’s Pension Wise; the FCA adopting new definitions for guidance and advice, and creating a nationwide Government campaign, highlighting the importance of investing.

likely to make sub-optimal decisions around how to decumulate their pension pot.

Context

With four out of five private sector employees now saving in a workplace pension (up from two out of five in 2012) pensions auto-enrolment is arguably one of the great policy successes of the past decade.

However, higher pension participation is just one step to ensuring individuals have adequate retirement funds.

The scale of the pensions challenge is huge – on average, people approaching retirement age are almost £250,000 (or 58%) short of the pension pot they would need to deliver the retirement income they want. Further, when it comes to decumulating their pension pot, many will make a sub-optimal choice (e.g. purchasing an annuity when entering drawdown is more suitable, or taking a tax-free lump sum and increasing the risk of running out of money in retirement).

Given the risks of financial harm, policies that aim to improve guidance and advice on pensions will be critical.

The problems with the status quo

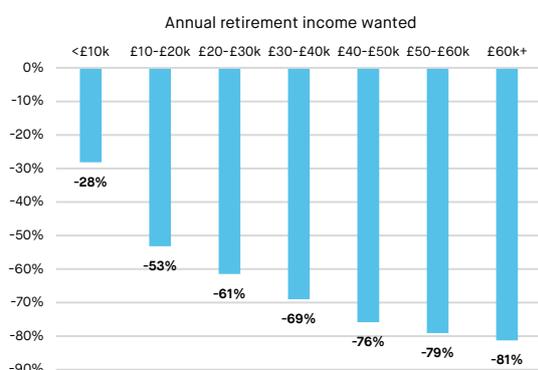
The Pensions Policy Institute predicted that 700,000 people reaching the State Pension Age over a period of 10-15 years (12% of the total) will be at “high risk” of making poor decisions when they retire. A further 1.6 million (29% of the total) were estimated to be at “medium risk” of making poor decisions.

Most households do not have adequate knowledge and support in navigating the pensions landscape. A significant number are likely to be overconfident about understanding their needs.

Despite believing in its importance, consumers tend to adopt a relatively hands-off approach to their pensions. Only 20% of 50-64-year-olds have spoken to a financial adviser about their pension, for example.

Uncertainty and lack of accurate understanding over pension needs is rife. 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.

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



Source: SMF modelling, *Opinium* survey

Crucially, 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.

How advice and guidance help

Getting advice or guidance makes people much more likely to understand the pension savings they need. Half (48%) of people who get advice have a broadly accurate idea of needed savings. Those using financial advice had 4% lower potential pension pot shortfalls than those who had used neither advice nor Pension Wise – even after taking into account variations in age, region, approach to finance, housing tenure, income and sex.

Financial advice and high-quality guidance can allow individuals to make better choices at the point of pension pot decumulation.

Notably, use of financial advice is much more likely than Pension Wise to encourage saving. Just under a quarter of people who took advice increased their pension contributions. Only 8% of people using Pension Wise did so.

How the status quo stops people getting help

Three major trends of the status quo driving under-usage of pensions advice and guidance are: overconfidence, lack of awareness of offerings, and regulatory barriers:

- **Overconfidence:** feeling knowledgeable enough to make decisions on your own the most frequently cited (28%) reason for not speaking to a financial adviser, driven by men (34%). 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%).
- **Awareness:** Across adults aged 50 and over in 2020, just (33%) had heard of Pension Wise.
- **Regulatory barriers:** The concept of “guidance” is not well-defined by the Financial Conduct Authority.

The report concludes with a set of policy recommendations for increasing use of advice and guidance to deliver better retirement outcomes for more people.

Recommendations

- ✓ **Recommendation 1:** Pension Wise needs to be expanded, with a broader scope and new digital tools.
- ✓ **Recommendation 2:** The FCA should provide clearer information on its definitions of “guidance” and “advice”.
- ✓ **Recommendation 3:** Using guidance or advice should be made the default, given the complexity of decision-making at the point of accessing a pension pot
- ✓ **Recommendation 4:** The Government needs to create a nationwide pensions awareness campaign, delivered in partnership between government, industry and the third sector.