

# Evidence submission

Age UK evidence to Work and Pensions Committee Inquiry:  
Pension freedom guidance and advice

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## **Key recommendations**

- The Government should be required to monitor and report regularly on the outcome of the reforms, including the extent to which they meet the needs of disadvantaged groups.
- Pension Wise needs to be expanded, more actively promoted, and available throughout retirement. The website should include more tailored information.
- Pension Wise should be complemented by access to a healthy not-for-profit advice sector.
- The Government should improve the clarity around the interaction of pension income with debt and means-tested state benefits.
- Lenders should agree best practice guidelines to balance the interests of borrower and lenders in relation to pension savings.
- Providers should design default options for the non-expert to reduce the risk of poor decisions.
- The Financial Advice Market Review should consider: how fixed-price models of advice can be developed; whether portable fact finds would increase efficiency and reduce costs; the interaction with not-for-profit advice; and the role of default options and pathways in simplifying decision-making.

## **Introduction**

1. As a major provider of information and advice to people approaching and in later life, Age UK welcomes the Committee's inquiry into pension freedom guidance and advice. We support the principle of greater flexibility for pension savings, but with greater choice, comes greater complexity – and as there is no longer a once-and-for-all decision over which annuity to buy, the need for active money management could last into later old age. The current turmoil in financial markets highlights the need for active management, particularly for people in draw down schemes who could very rapidly exhaust their savings in a falling market.
2. Our information and advice service reaches over 2 million people each year. We run a national telephone advice service providing information and signposting in response to enquiries received (level 1), and an in-depth advice service for more complex queries (level 2). This deals with just over 300,000 enquiries a year. Our network of around 165 local Age UKs across England also handles just over 750,000 enquiries and some offer face-to-face guidance under contract from the Money Advice Service. We offer a wide range of information guides, factsheets and content online and run a radio station, Age UK Wireless. In total, our information and advice reaches over 2 million people a year,

and puts £160 million of unclaimed benefits into their pockets. Although Age UK is not a delivery partner for the Pension Wise service, we expect these reforms to have implications for our own information and advice services, both now and in the future.

### **The need for monitoring of outcomes**

3. For Age UK, the key test for the success of the reforms is that they should deliver good outcomes for pension savers. Pension Wise is an important and welcome part of the reforms, but we are concerned that although its performance is being monitored, little information has been released to date and it is not clear what action will be taken to monitor the outcome of the reforms as a whole, for example, what actions individuals take in relation to their savings and how much tax is paid at each marginal rate. The Government should set up such a programme, using regular data collected by the FCA from providers and HMRC tax data. While only five months have passed since the implementation of the reforms and experience in this period may be atypical, it is important that there is a clear baseline against which to assess the success of the reforms.
4. A particularly important question is not just how many people are taking advice in response to the pension reforms, but who they are. For example, is promotional activity around Pension Wise reaching people with small sums who are not in a position to pay for regulated advice? Are information and advice services reaching people who have traditionally been under-pensioned, such as women on low incomes, and black and minority ethnic groups? We hope that the Government will work with Pension Wise and the pension industry to reach these groups.

### **Take up**

5. As of 31 July, 85,000 people were reported by the Treasury to have made use of the new pension freedoms<sup>i</sup>, but a week earlier just 18,000 people were reported to have made use of the telephone or face to face service, although 925,000 had accessed the website<sup>ii</sup>. This suggests that significant numbers of people are not making use of the service. This seems in line with industry figures – for example, recent research by Royal London found that while 32 per cent had contacted Pension Wise and 42 per cent had contacted an adviser, 42 per cent had done neither<sup>iii</sup>.
6. Possible reasons for the discrepancy could be:
  - the Government's decision not to promote Pension Wise during the period of purdah
  - people are generally cashing in small pension pots (£14,100 in the Royal London research) for which they feel advice is not necessary
  - they are not acting on risk warnings from their pension provider

- or they are seeking advice elsewhere. For example, through the normal Pensions Advisory Service (TPAS) helpline.

7. Age UK's information and advice services have also been contacted by people seeking information on the pension reforms, and have handled around 300 queries at level 2 in the pensions/investments area since April 2014. Note that this excludes enquiries at level 1 and local Age UKs, where we do not have detailed enough information to identify them. Enquirers are signposted to Pension Wise and TPAS, or to the Money Advice Service adviser directory for regulated advice.

8. Quotations in italics in this submission are all taken from enquiries Age UK has received. Typical calls are:

*A caller contacted our Advice Line because they wanted to take advantage of Government changes and draw down from a pension. The company had stated that this was no longer an option. The caller was considering making a complaint and needed to know if this is within the rules.*

*I have a small pension of £1,800. If I opt for the full amount, do I have to buy an annuity or am I able to just keep the cash?*

9. Although we hope and expect take-up of Pension Wise to improve, as awareness increases, research suggests that many people may not seek out advice, even if free. Recent research Age UK carried out into attitudes towards the development of a secondary market for annuities<sup>iv</sup> found that 59 per cent of people with income from an annuity said they would not seek advice before making the decision about whether to cash it in, compared to 36 per cent who would. And according to Scottish Widows, 42 per cent of lower-income households would not know where they would go to get advice, and 26 per cent of the next income band up<sup>v</sup>.

10. It seems clear that the take-up conundrum is not just a matter of supply, but a complex interaction between individual consumers' personal circumstances and attitudes towards pensions, pension products themselves, and industry behaviour.

### **Suitability and independence**

11. Information and advice on pension reforms comes from various sources, including the pension provider, Pension Wise, and regulated financial advisers.

12. The pension provider is required to provide risk warnings and to signpost to Pension Wise – providing 'a second line of defence' which Age UK supports. We have only anecdotal evidence on which to judge the extent to which this process is working, however the process can appear somewhat 'clunky' and bureaucratic:

*A caller to the Age UK advice line took independent financial advice in January regarding a draw-down from his personal pension, having previously contacted their pension*

*provider who sent him a 30 page document with information from Pension Wise. He then contacted the provider who said that his pension scheme does not allow a draw down unless done by a financial adviser and suggests that he 'shops around'.*

13. As in the case above, it is not always easy to distinguish the advice process from issues around product design, nor is it always clear whether the provider's requirements arise from regulation or the provider's risk aversion. Given that so many people do not take up independent advice, we think it is important that providers give impartial information in a form that consumers can take in. There is clearly a risk that providers could influence consumers' decisions - we have not seen evidence of this so far, although there is a more subtle form of influence in the options firms choose to offer, a possible solution to which is proposed in paragraph 25 below.
14. Age UK regards Pension Wise as a vital safety net, and the reports we have seen of the telephone and face-to-face service, although anecdotal only, suggest good standards of advice within the limited remit of the service.
15. Some people will just use the Pension Wise website. This provides a range of clearly presented information. However it is not tailored to individual need, for example there is as yet, no tax calculator and we hope this will be looked at further. Nor is it a substitute for talking to someone:

*I have been trying to get some financial advice including 3 small pensions I have and what I can do with them. I have tried the pension advice site and it was not helpful. I've been told I need a financial/ pensions adviser but am worried and can't really afford much. I need impartial advice - all these 'link on this link on that' - I need someone to sit down and help me sort it out.*

### **Limitations of Pension Wise**

16. A major limitation is that, even with an extension to people aged 50 to 55 announced in the Summer Budget, Pension Wise is available only at the point of drawing pension income, usually on a one-off basis. As stated earlier, people may need follow-up advice, and local Age UKs working on Money Guidance report that, having had their Pension Wise session, some people then take up Money Guidance or contact the TPAS helpline. One Age UK adviser providing money guidance has reported a 50 per cent rise in pension queries. People who do not annuitise or spend all their pension savings at outset will also need ongoing advice throughout retirement.
17. The interaction of pension freedoms with debt, state benefits and state support for care funding is extremely complicated and an area in which few regulated advisers have the necessary expertise. For example, lenders could press the consumer to draw money from their pension to repay a mortgage or other debt, even if this is not the best option for them (for example, because they have earmarked the pension to support a

surviving spouse who has no private pension of their own). This risk is compounded because older borrowers' access to the mortgage market is restricted by automatic age limits. Although the Insolvency Service has issued some provisional guidance on the treatment of undrawn pensions, it is far from clear and there is no certainty for clients or advisers.

*I have a small pension from work and have been offered a lump sum instead of keeping the pension. I was made bankrupt 5 years ago and I need to know if any lump sum would be confiscated*

18. A decision over whether or not to draw pension savings could also affect entitlement to state benefits. I attach a briefing which sets out some of the issues<sup>vi</sup>, but the recent consultation on a secondary annuity market also highlights the interaction between benefits and pensions by suggesting that selling an annuity could automatically disqualify someone for state benefits.

19. We think that Pension Wise will need to be complemented by access to a healthy not-for-profit advice infrastructure for general money advice, debt and benefits. It is already creating significant knock-on effects for other free advice agencies, such as Age UK. The Money Advice Service will also have an important continuing role to play.

### **Affordability**

20. An important role for Pension Wise is in encouraging people to take regulated financial advice or other professional advice where appropriate.

*I have not been an old person before and am not sure how things work. I am in the process of sorting out my pensions from a number of companies and may need the services of an accountant for my tax etc. Would appreciate your advice, I am 66*

21. Many pension savers will be unable or unwilling to pay for regulated financial advice. Research by Which? found that the average up front cost of advice on investing £60,000 was £1,500, and it was not always clear up front how much the cost would be<sup>vii</sup>. Cheaper advice may certainly be available and we are pleased that the Money Advice Service has developed an adviser directory highlighting advisers who are willing to advise people with small pension funds, however the current model of financial advice is very much slanted towards better-off individuals.

*I wonder if you could help me. I am an unemployed 60 year old man with some health problems. With this in mind I was thinking of early retirement. I have a final salary pension scheme and have received some online figures for early retirement which seem attractive and that I may like to pursue. However, my pension provider insists I see a Financial Adviser before taking this any further. I now feel I am in a Catch 22 situation as I just cannot afford the fees of a Financial Adviser as I am on Jobseekers Allowance which does not leave much at the end of the week! What would you advise?*

22. We welcome the Government's announcement of the Financial Advice Market Review, as a valuable opportunity to find solutions for this 'advice gap', but it is important that this does not weaken advice standards, or reduce consumers' access to redress for poor advice. The advice industry has come a long way in improving standards since the days when advice was freely accessible (and free) but too often worthless. We hope that any increase in access to advice is gained by investing in infrastructure and technology, and by introducing good default options (see below). Default options would not remove all choice, but could simplify the range of decisions consumers need to make and hence reduce the need for advice.

23. In developing new models of advice, we recommend that the review considers:

- How fixed-price models of advice can be developed, as lower-income consumers will be reluctant to take advice at an open-ended cost
- Whether costs can be reduced by introducing portable 'fact finds' – statements of a consumer's current financial situation and aims, owned by the consumer, and on which providers can rely. This will be facilitated by proposals to develop a 'pensions dashboard'
- The interaction between the financial services industry and the generic advice and information provided by the not-for-profit sector, including the provision of financial capability and money guidance.
- Whether default options or pathways might simplify the range of decisions on which advice is needed.

### **The need for defaults and quality standards**

24. Research that we carried out last year highlighted the complexities facing consumers, and suggested that someone with total savings of - say - £29,000, drawing £2,000 a year from a high-charging income drawdown plan (2% initial charge and 2% + £150 annual charges), would run out of money almost six years earlier and receive £11,000 less in income than one with a total cost of 0.75% a year<sup>viii</sup>. The Government should introduce quality standards and, dependent on the outcome of the consultation currently on underway, should consider charge caps for some products.

25. Age UK is strongly of the opinion that as we now have a pension system which is founded on the principle of auto-enrolment, we also need a retirement income system that works for disengaged consumers, particularly later on in retirement. We have been very interested in discussions around 'default pathways' that could provide straightforward solutions and ensure some protection against high charges, and we welcome the recent contribution made to the debate by NEST<sup>ix</sup>.

### **Conclusion and recommendations**

As we hope this submission has made clear, good quality information and advice is necessary, but not sufficient, to make the new pension flexibilities work in the interests of future pensioners. The options they are presented with by providers and their own circumstances and attitudes all come into play, and information and advice may not be enough to counteract behavioural biases – the chief of which may be a resistance to engage with what can be very complex decisions. The reforms need to be supported by change across the marketplace.

- The Government should be required to monitor and report regularly on the outcome of the reforms, including the extent to which they meet the needs of disadvantaged groups.
- Pension Wise needs to be expanded, more actively promoted, and available throughout retirement. The website should include more tailored information.
- Pension Wise should be complemented by access to a healthy not-for-profit advice sector. This requires ensuring that other advice agencies are adequately funded to meet the need.
- The Government should improve the clarity around the interaction of pension income (drawn and undrawn) with debt and means-tested state benefits.
- Lenders should agree best practice guidelines to balance the interests of borrower and lenders in relation to pension savings.
- Providers should design default options for the non-expert to reduce the risk of poor decisions. Regulators and government should set quality standards for these default products.
- The Financial Advice Market Review should consider: how fixed-price models of advice can be developed; whether portable fact finds would increase efficiency and reduce costs; the interaction with not-for-profit sources of advice; and the role of defaults options and pathways in simplifying the range of decisions on which advice is needed.

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<sup>i</sup> *Government takes action to support pension savers*, HM Treasury Press Release, 30 July 2015

<sup>ii</sup> <http://www.pensionsage.com/pa/Pension-Wise-uptake-almost-950000-since-launch.php>

<sup>iii</sup> *Revealed: savers hoarding pensions cash in bank accounts*, Money Marketing, 20 August 2015

<sup>iv</sup> *Briefing: Age UK survey on attitudes to a secondary annuity market*, Age UK, July 2015

<sup>v</sup> *Retirement Report 2015*, Scottish Widows, June 2015

<sup>vi</sup> *Briefing: the new pension flexibilities and the implications for benefits and paying for care*, Age UK, April 2015

<sup>vii</sup> *How much does financial advice cost? Which?*, February 2014

<sup>viii</sup> *Dashboards and Jam Jars*, Age UK, December 2014

<sup>ix</sup> *The future of retirement: a retirement income blueprint for NEST's members*, NEST, July 2015