



Response to Work and Pensions Select Committee's inquiry into pension freedom guidance and advice

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

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1. We welcome the Work and Pensions Select Committee's inquiry into pension freedom guidance and advice. As we have previously argued, the scale of the change to pensions will drastically alter the type and frequency of financial decisions people have to make before and well into retirement. It is therefore vital that guidance and advice be high quality, consistent, guaranteed and tailored to individual circumstances.
2. Although it has now only been five months since the introduction of the reforms, and there is little evidence of take-up and satisfaction at this stage, we have very real concerns that Pension Wise is falling short not only of the system we would argue for, but of the stated aims of the 'guidance guarantee'.
3. Following the original pension freedoms announcement much was made about whether what would be provided would be advice or guidance. Regardless of what word is used, we have always been clear that we felt that for the 'guidance guarantee' to be of any use, it needs to do more than just provide information or the pros and cons of various options. We still believe that for the pension freedoms to be a success, there needs to be free support which guides individuals to reach conclusions, or suggests defaults or 'people like you' options.
4. We note that HMT and FCA publications have made clear that the guidance will not go this far. We believe this is the wrong decision and a real risk to the success of the pension freedoms as a whole.
5. We would further note, that whilst HMT and FCA have been clear about what the guidance won't do, there has been much less clarity about what it will. We are still keen that those providing the guidance push the advice boundary as far as they can, in order to provide something of use to consumers.

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6. Since launch, there has been a lack of information and transparency surrounding Pensions Wise, with only the website being open access and open to scrutiny. We therefore base our comments on the limited publicly available information we have.
7. We supported the 'guidance guarantee', but as Pension Wise develops, we do not believe that its aims are being achieved. We set out our concerns below and offer our view on how the guidance could be improved.

Comments on the take-up, suitability, affordability and independence of the advice, guidance and information available to those approaching retirement

Take-up

8. Firstly, we call for much greater transparency moving forwards. Pension Wise has only existed for a short time and usage statistics have not yet been published. When they are, statistics on the usage of Pension Wise ought to be released regularly and broken down by:
 - Type of guidance (digital, telephone, face to face)
 - Customer satisfaction
 - Customer outcome
9. Without these statistics is it difficult to comment on the take-up of Pension Wise. It has been reported that George Osborne told the Treasury Select Committee in July that 18,000 had used the telephone and face-to-face services and that 925,000 visitors had accessed the website. These limited statistics highlight two major concerns:
 - These figures indicate the digital platform is the primary form of 'guidance' provided.

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- The take-up of face-to-face and telephone guidance is very low if you take into account the sums of money involved (£1.8 billion in the first two months) and the number of withdrawals.

10. These two statistics taken together mean that for the 'guidance guarantee' to be a success, the web channel must also be a success. For this reason, and because of the lack of information surrounding the other channels, the majority of our response focuses on the web channel.

The web channel

11. As noted above, there has been much debate about the appropriateness of advice versus guidance in this space. In fact, what is currently provided, to web users at least, is neither. At best, the website provides basic information. And as it stands, it's not very well presented or engaging information at that.

Interactivity

12. Currently, the website version of Pension Wise merely provides simple information that describes the system and the options that are available to people approaching retirement and signposts to additional services required for a consumer to assess their options.

13. The website is set up as a six point process set out over basic webpages. You can follow the webpages through these six points, but if you do, there is no feeling that you have been through a process or have received your 'guidance guarantee'. We detail below how we had expected the website to be more personalised, but even if this cannot be achieved, we had expected there to be some element of interactivity so that the individual feels they have just received or benefited from something.

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14. In addition, in terms of keeping track of usage, it would be useful to distinguish between those who had been through a full process and received their 'guidance guarantee' and those who had simply browsed a couple of web pages.

Personalisation

15. The website makes no attempt to tailor the guidance to an individual's circumstance or to allow the individuals themselves to input personal pension information and to see (and play around with) illustrative figures of the various options.

16. The only part of the website where a consumer can input their details and receive information specific to them is a life expectancy calculator (which is hosted on a separate website).

17. In addition to this there are examples given of retirement income calculations based on state pension and annuity or flexi-access drawdown that indicate the levels of income you might expect from a pension pot depending on when you retire. However, this is all presented as static information, and only captures a few possible individual circumstances. Consequently, this could only really be construed as guidance if the consumer happened to be in a comparable position to the chosen examples.

18. There is a danger that people take too much from these examples, believing that they are the only options available or that their situation is comparable when it is not.

Summary of guidance

19. The website states that in the telephone and face-to face appointments, 'afterwards you'll get a letter with a summary of what you talked about'.

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Clearly, as the session itself doesn't provide any 'answer' the individual is encouraged to go away and think further, talk to family or friends and seek further information or regulated advice. In each case this letter will be a crucial aid to assist these conversations and to remember what has been discussed. It is therefore to be welcomed.

20. If it is also a 'summary of what you talked about' it is likely that this letter will contain an element of personalisation, however basic.
21. As highlighted above, the web channel does not allow you to personalise at all. Worse than this, it doesn't leave you with any kind of summary or printable version of the information you have just read, not even a basic PDF. The web channel is set up as individual web pages, and so would be very difficult to print out and take away.

Ongoing advice

22. In the old system, the vast majority of retirees with a defined contribution pension would take out an annuity; people had one decision that would provide them with a predictable income for the rest of their lives. In the new system, people will be asked to make decisions both before they retire about how they save and well into their retirement if they have not purchased an annuity, often towards the end of life.
23. The Pension Wise website appears to be aimed solely at those who are 50+ and gearing up to one big decision about their retirement. The whole point of the pension freedoms was to provide people with options beyond a one-off decision to purchase an annuity, but the Pension Wise guidance is set up as if decisions about your defined contribution pot are still focussed on one big decision.

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Consumer detriment

24. In the FCA's policy statement on 'Retirement reforms and the guidance guarantee: retirement risk warnings' report (PS15/4) it is stated that 'firms should ask consumers whether they have received regulated advice or guidance from Pension Wise and, if not, encourage consumers to do so.'
25. The FCA also decided to implement the so called 'second line of defence' requirements without consultation as 'the risk to consumers in this area is great enough for additional protections to be required before the April 2015 changes'.
26. It is clear, therefore that both Government and FCA understand the significant risk of serious consumer detriment if individuals make ill informed decisions. Although there are now further steps to identify risk factors, if use of the Pension Wise website allows providers to assume that appropriate guidance has been received, there is a very real danger of this occurring.
27. And whilst the 'second line of defence' is to be welcomed, it only seeks to re-emphasise why the first line has to be fit for purpose. As things currently stand we do not believe that the web channel, which 98% of visitors use, passes that test.
28. Taken as a whole, the information available on the website falls short of being adequate guidance by:
- Merely providing information and not guidance
 - Not distinguishing between browsing and taking a digital guidance session
 - Not allowing any interactivity or asking any questions.
 - Not tailoring the output to an individual's circumstances

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- Not providing any summary or output
- Being solely focussed on a single decision (buying an annuity, withdrawing a lump sum, setting up a drawdown)

Face to face and web channels

29. As noted above, we do not know enough about these two channels to respond constructively.

30. We would note however that the FCA's policy statement sets out that, the Pension Wise delivery channels are supposed to provide 'one service from the users' perspective and that the conversations and outcomes are consistent across the delivery channels'.

31. We would assume that as part of a conversation with a real person, the individuals are asked some basic information about themselves, such as age and marital status. And that as a result the information provided is personalised at least in some basic way.

32. If this is not the case and the telephone and face-to-face services follow a script which only contains the basic information on the website and which does not involve any input at all from the individual, then we would argue that these channels are also not fit for purpose.

33. In addition, in the telephone and face-to face appointments, as is suggested by the promise on the website that 'afterwards you'll get a letter with a summary of what you talked about', the service is not consistent across delivery channels. This would represent a two-tier system.

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34. Either of the situations outlined above are inadequate. Either Pension Wise is offering a consistently inadequate service, illustrated by the web channel, or there is a two tier system, whereby more detailed and personalised guidance is provided to a very small minority face-to-face or over the phone, whilst the vast majority are served by an inadequate website.
35. This inadequacy does nothing to ameliorate, indeed exacerbates, the 'advice gap'. Figures from the Association of British Insurers show that the median defined contribution pension fund used to purchase a single life annuity is £20,000. This places many people in the situation where their decisions will be financially significant and potentially subject to tax, but where the only guidance available is the Pension Wise service with all its shortcomings.
36. There is some evidence that regulated financial advice providers are stepping into the space. Hargreaves Lansdown now offers flat-fee, low-cost advice services, but even this, priced at £474 is far above the average £253 a recent Money.co.uk survey found defined contribution pension holders aged 55+ were willing to pay an IFA.
37. Even if IFAs are innovating to create an offer for those who would otherwise be caught in the 'advice gap', the demand for paid-for advice is simply not there and many will forgo these services if they charge.

Recommendations for improvement

38. Pensions Wise needs to go much further to provide tailored personalised guidance, if it is to meet the aims of the 'guidance guarantee' and address the problem of the 'advice gap'.
39. It should be consistent across all channels. If the website is used by 98% of people, it is not acceptable for this to provide a lesser service. So the website needs improving significantly.

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40. Across all delivery channels guidance should be interactive and tailored to an individual's circumstances. This means:

- Providing the opportunity for users to input their personal details
- Producing outputs based on the personal details of users

41. This interactive and tailored guidance must meet the needs of people in the accumulation and drawdown phases, not just at the point of retirement.

42. Guidance for all users should have an output. Ideally this would guide them to an 'answer' or a default. But even if this is not possible, it should use personal information to provide a set of tailored scenarios to the user that they can base their decisions on. This should be available in printed and downloadable form.

43. It should be clear that the user has received the Pensions Wise 'guidance guarantee' and not just browsed the website.

44. There should be much greater transparency around the service.

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