

# Briefing note on the PICA policy seminar held at Church House, Westminster on Tuesday 20th May 2014

## ‘Delivering an effective guidance service’

How do we ensure people approaching retirement receive free and impartial advice? Does it have to be a face to face process? Should it be provided by a single entity or a number of organisations? How will we judge its success?

These are just some of the questions discussed at a seminar held on Tuesday 20 May organised by the Pension Income Choice Association (PICA). The seminar included participants from key stakeholder organisations involved in the HM Treasury consultation on guidance: policymakers, officials, regulators, consumer groups, product providers, think tanks and behavioural experts. All of whom have an interest in ensuring better outcomes for people approaching retirement. The event was chaired by Paul Lewis, the presenter of BBC’s Moneybox programme.

### About PICA, background to the conference

PICA is a campaigning group set up in July 2009. PICA is dedicated to promoting the importance of reviewing pension assets at retirement to determine the most appropriate solution for the needs and circumstances of every individual.

The successful delivery of the proposed guidance service will be a fundamental element in ensuring that retirees receive the help and support they need to make informed decisions. PICA hosted the seminar to identify key areas of consensus, and allow stakeholder groups to discuss the core requirements that guidance must deliver in order to meet the objectives set out by the Chancellor. A full list of the organisations present is included at the end of this note.

## Key messages from the seminar

Providing a national guidance service by April 2015 will be challenging. Nevertheless, it was encouraging that several areas of broad consensus emerged from the table discussions. Attendees felt that guidance must be...

- **Independent of commercial bias.** There was a strong sense that the service would not be credible if there was any suggestion of commercial bias.
- **Personalised.** For the service to provide meaningful support it must be based on information relevant to the individual so that the conversation can focus on the right issues.
- **Person-focused, not pot-focused.** The service does need to take account of more than just the individual’s pension pots. For example, debt, health, housing wealth, tax and state benefits should all be considered along with longevity and other features.
- **There when people need it.** The service should be made available when it is required not at a prescribed time. What’s more, it should be available on an on-going basis. This should not be seen as a ‘one-and-done’ single experience.

At the same time, one major question remained unresolved – defining success. Identifying the ultimate ambition and objectives for the service is a critical and fundamental issue that will shape, guide and inform the role and nature of the guidance service.

## Background – the guidance guarantee

The Budget proposal to allow unrestricted access to Defined Contribution (DC) pension savings will lead to greater flexibility and choice for people approaching retirement. To help consumers navigate the increasingly complex decisions and choices they have to make, the government plans to introduce a 'guidance guarantee'. The guidance guarantee will be available to everyone with DC benefits and will be:

- impartial and of consistently good quality
- cover the individual's range of options to help them make sound financial decisions and equip them to take action, whether it is seeking further advice or purchasing a product
- free to the consumer
- offered face to face

The challenge is to establish a nationwide guidance service that will meet these requirements and equip consumers with the confidence and knowledge they need to take informed decisions.

Those present at the seminar focused on addressing two key issues:

1. What outcomes should the service deliver for consumers?
2. How should guidance be delivered to consumers and by whom?

### 1. What outcomes should the service deliver for consumers?

To help define the nature and scale of the capability required, the starting point was to identify the ultimate objectives for the service. What is it consumers should know, and what is it they should do once they have received guidance? To tackle this question, the subject was broken down into its constituent parts.

- **Scope.** Should the service focus only on the options for maturing pension savings or take a broader view encompassing, for example, health, debt, housing wealth and state benefits? There was broad agreement that it must include a review of personal circumstances to be effective.

Other points made by attendees:

- As well as debt, health, housing wealth and state benefits, the individual's circumstances in relation to their partner and dependents should also be considered along with longevity and the tax implications of different solutions.
- The service should explain unfamiliar concepts, encourage the user to pause and take some time to carefully consider their current and future retirement income needs
- The service should be entirely free of jargon, equip people with an idea of their options, be alert to the risk of 'scams' and understand the sequence of their decision-making (including what to do after guidance, signposting to useful tools and resources - or regulated financial advisers if further help and/or advice if required).
- **Generic or personalized inputs/outputs?** Should people be asked to submit personal information prior to receiving guidance, and should guidance outputs be generic or based on information individuals have provided? Once again there was a clear view that this should be a requirement. The quality of the service would be significantly diminished if it does not focus on information relating to the consumer. The kind of information that could be checked might include fund values, availability of guaranteed annuity rates, constraints or penalties on withdrawal of funds and details of State Pension benefits.

Other points made by attendees:

- The service should seek to incorporate personalized information if possible, and explore how to gather relevant information. For example, look at how information could be securely and automatically gathered on State Pension entitlements, or from the Pension Service. This should also consider how to incorporate a one-page 'pension passport' that could be used to draw together all of the key information viable to help the user understand their assets and options.
- The service will need to achieve the right balance between the provision of understandable, useful information and "information overload", recognising that the more information people are asked to provide the less likely they may be to engage with the process.
- The guidance service should be promoted as a positive, beneficial tool to encourage engagement and reduce opt-outs – otherwise the service could be viewed as a bureaucratic, tick-box exercise.

- **Person-focused, not pot-focused (and trigger points).**

There was broad agreement on the need to focus on the individual, and to look holistically at an individual's entire pension savings rather than set up guidance on a per pension 'pot' basis. The issue of when the guidance service should be made available was also considered. What are the trigger points that will lead to a demand for the service? Generally, the service needs to be made available to people from age 55 (and even earlier for people who plan to take their benefits from age 55), but there was a general view that the service should be made available whenever the individual requires it.

Other points made by attendees:

- The use of technology like Skype and web chat, plus telephony, might not only reduce costs, but may provide a more effective approach.
- Financial constraints mean that the service may not always be delivered face to face, recognising the logistical challenges and also people's preferences for these types of delivery channels instead of face-to-face.
- **What might success look like?**  
There was a range of views on what the appropriate future success measures would be for the guidance service. Suggestions included measuring how well equipped users would subsequently feel about making decisions post-guidance. Discussion followed on whether analysis should capture satisfaction with the guidance service, or whether analysis should focus on the actions and decisions which people subsequently take having received guidance. The contrary view was that the service should have a broader responsibility to help people make sound purchasing decisions that will support them throughout their retirement, and therefore monitoring the actions people take after receiving guidance will be crucial.

Other points made by attendees:

- There was a general view that consumers must be alerted to the importance of the decisions they are being asked to make.
- The point was made that trying to measure the actions people take is very difficult to achieve in practice.

- Next steps, i.e. what next after guidance? It was generally recognised that the guidance service will be the beginning of a process that will eventually lead consumers to the point where they feel confident and empowered to take decisions. Some will end up seeking regulated ‘advice’ from a professional financial adviser; some will feel able to make their own decisions on products, on their own or with the help of tools; and others may be referred to third parties that can offer further support, like debt counsellors, for example.

Other points made by attendees:

- There was a suggestion that an approach to guidance that assessed and filtered users’ options based on the information provided could narrow down the range of options likely to be relevant to the individual, and improve the efficiency and effectiveness of the guidance service.
- There is a clear need for a recognised directory of advisers, and effective signposting to help people find an adviser for users who subsequently want regulated advice.
- There was general agreement that whenever people were passed on to a third party their information or record should be recorded within the service so that they are not repeatedly asked for the same information.

## 2. How should guidance be delivered to consumers and by whom?

The question of how guidance should be delivered, and who is best placed to deliver it, touches on a number of important issues. For example, how to ensure independence, impartiality and consistency? Should it be mandatory for everyone with DC pension benefits to go through the guidance service? Is it necessary to make guidance a regulated activity?

Key questions considered in the second session included:

- **Should guidance be mandatory?**  
The general view was that it is not viable to make the provision of guidance mandatory and indeed it could undermine the value of the service if it’s perceived as a barrier standing between consumers and access to their money. The preferred option was to promote the service and positively encourage take up, with attendees comparing the introduction of guidance to the Department of Work & Pensions’ campaign to promote the introduction of auto-enrolment. Similar positive promotion should ensure the service is widely understood at launch, generates positive interest and demand, i.e. without resorting to compulsion.
- **What is the optimal model to ensure impartiality, independence and consistency?**  
A multi-agency model was discussed where any organisation capable of meeting certain minimum criteria could be granted a license to provide guidance. This raised questions about consistency, quality of service and the likely reduced efficiency and resulting loss of economies of scale. The point was also made that multi-channel delivery may also be confusing for customers. A single independent entity, like TPAS, could overcome these issues. The question of capacity and scalability would need to be addressed, but the evidence suggests this need not be a major problem if the appropriate resources and budget are made available. This model received strong support from many people during the discussion.

- **Should guidance be a regulated activity?**

It was noted that there has been a gap between non-advised and fully regulated advice and perhaps the guidance service could fill this void. On the specific question of whether the activity should be regulated, this was not considered necessary given that the service isn't recommending products, providers, nor expected to provide conclusions with a personal recommendation. Indeed, the point was made that the service would need to explicitly identify its limitations so that users were clear on the distinction between guidance and regulated advice.

- **Who should be allowed to provide guidance?**

There was agreement that the service should be impartial and, at least as important, should be seen to be impartial. Therefore it is difficult to envisage a role for product providers. The point was also made that the product providers may have little interest in providing an impartial guidance service and prefer to promote their products and services outside of the guidance framework. A wholly independent organisation with the expertise and experience to deliver the service was the preferred option.

- **Changes required to the structure of pre-retirement communications.**

Several attendees suggested output from the FCA's current Market Study would be helpful in addressing this question. Certainly, there will be a need to ensure communications with DC pension customers promotes the guidance service and includes details of how to access it. There was less clarity around the extent to which existing communications at or near retirement would be affected.

There was unanimous agreement that new communications regulations would need to help create a framework with better customer communications than current pension statements and pre-retirement 'wake-up' packs, which are considered too long, unwieldy and often drive disengagement.

There is still much to be done in shaping and defining the nature and scope of the guidance service but PICA would like to thank all of the following organisations who attended and contributed to this important discussion:

- HM Treasury
- Financial Conduct Authority
- Department of Work & Pensions
- The Pensions Regulator
- National Association of Pension Funds
- The Pensions Advisory Service
- Age UK
- Which?
- Chartered Insurance Institute
- Personal Finance Education Group
- Financial Services Consumer Panel
- Association of British Insurers
- Hargreaves Lansdown
- Partnership
- Just Retirement
- Pensions Policy Institute
- Strategic Society Centre
- ILC-UK
- Reform
- Money Advice Service
- National Employment Savings Trust
- LV=
- MGM Advantage
- Friends Life Plc
- Royal London
- Behavioural Insights Team
- Association of Professional Financial Advisers