

RESOLUTION FOUNDATION SEMINAR: TUESDAY 6 JUNE 2006 PENSIONS, RETIREMENT PLANNING AND ADVICE NEEDS

The Resolution Foundation held a seminar on 6 June 2006 to discuss pensions, retirement planning and advice needs. The seminar was held under Chatham House rules and was attended by a wide range of policy-makers, pensions experts and representatives from the financial services industry, consumer and voluntary sectors. It was chaired by Sue Regan, Chief Executive of the Resolution Foundation.

The purpose of the seminar was to discuss advice needs in light of the publication of the Pensions White Paper. It also aimed to draw on experience in New Zealand, following an evaluation of the work of the Retirement Commission and its *sorted* website commissioned by the Foundation from the Pensions Policy Institute (PPI).¹ The seminar also followed the Treasury Select Committee's report into the design of the National Pensions Savings Scheme which recommended that the Government consider the need for generic advice at an early stage alongside its reform proposals.

Presentations

The seminar began with four presentations:

(1) **Jackie Laughton** from the Department of Work and Pensions set out the Government's current thinking on advice and support needs in light of pension reform, highlighting the key elements from the White Paper in relation to this:

- Communication about the new system of personal accounts; this would include awareness-raising campaigns, the provision of information at key trigger points and support for employers and the voluntary sector to promote information about the accounts.
- Improving public understanding about pensions; this would be achieved through a variety of means including pensions forecasts, web-based retirement planning tools, piloting new ways of reaching people through the Pensions Education Fund and a new external communications drive.
- Improving financial capability more broadly; the Department would continue to work closely with the FSA on a range of initiatives, input into the Resolution Foundation's work on generic advice and develop options for hard to reach groups.

Jackie highlighted the learning from the *Informed Choice* programme which had shown that information alone is not enough to change financial behaviour, and the need to link increasing understanding about pensions with improving financial capability more broadly. She stressed the strong commitment at ministerial level to meeting people's information and support needs through the pension reform process and identified this as a key area in which policy development would take place over the coming months.

(2) **Nick Hurman**, a consultant working with the Resolution Foundation, provided an overview of advice needs in light of the proposed reforms. He set out the changing context

¹ The evaluation can be downloaded from the Resolution Foundation and PPI websites

within which pension reform is taking place, the key elements of the Government's response and the advice needs arising as a result, particularly for people on low incomes. These needs arose in three main ways:

- Starting out; understanding the pensions system and the options available at the beginning of the pensions lifecycle.
- Accumulation; making appropriate decisions across the pensions lifecycle in terms of savings levels, managing different products and responding to changes in circumstances or the pensions system.
- Retirement; making appropriate 'vesting' decisions, for example about annuitisation, as well as considering issues such as utilising housing equity and providing for long term care.

Nick highlighted the critical role of advice in facilitating people's interaction with the pensions system and the potential to bridge the current 'advice gap' by developing a generic financial advice resource.

(3) **Malcolm McLean**, Chief Executive of The Pensions Advisory Service (TPAS), provided a practical perspective based on TPAS' experience of providing pensions advice. He used a number of examples to illustrate the complexity of the pensions system including the different State Pension entitlements, types of pension products available and rules among occupational schemes.

TPAS' experience was that this complexity, when combined with poor communication from the pensions industry, created great confusion for people. His view was that, although some of the reforms would reduce this complexity, people would still need advice on a wide range of issues. He stressed that TPAS are able to provide detailed advice without crossing the line into regulated territory. He also emphasised the need for specialist advice to be available, given the complexity of many pensions issues.

(4) **Alison O'Connell**, Director of the PPI, provided an insight into the experience of the Retirement Commission in New Zealand based on her evaluation of its work and the *sorted* website for the Resolution Foundation. The key findings from the evaluation included:

- The Commission's independence is crucial and has allowed it to build up trust and a reputation for focusing on customer needs.
- It placed a strong emphasis on equipping people to take action; in this way it does much more than provide information.
- The Commission's other roles, such as researching and advising on retirement policy, are complementary to its core function.
- The *sorted* website is about taking the emphasis off the 'r' word [retirement] and addressing financial needs across the lifecycle. It is very user-friendly and trusted, and it provides personalised information and guidance.

She then outlined the potential lessons for UK policy:

- There is a much greater need for such a resource in the UK than in New Zealand.
- Independence would be crucial and any other roles it might also undertake should be complementary.
- A website would be a good first step in establishing such a resource and, in moving beyond this, the workplace would be a good place to start.
- The emphasis should be on addressing needs across the lifecycle and not on the 'p' word [pensions].

She concluded by stressing that the New Zealand approach was based on promoting public understanding of financial issues, as well as encouraging saving for retirement, and questioned whether this approach was being taken in the UK.

Discussion

Following the presentations, five key questions were discussed:

- What are the implications of the proposed reforms on the decisions people need to make and their advice needs?
- What role should the State play as an 'enabler' and what is the right balance between information, education and advice?
- To what extent can generic (ie non-regulated) advice meet people's needs and what role can it play in ensuring that pension reform is a success?
- What lessons can be learnt from the Retirement Commission in New Zealand and how should this influence pension reform and the development of the financial capability strategy in the UK?
- What options are there for delivering advice to support pension reform and how should this agenda be taken forward?

The main points raised in discussion are set out below:

Advice needs

There was strong agreement that more needs to be done to develop information and advice resources to support people in making decisions about their pensions. Several participants highlighted that the new regime of personal accounts, while removing the need for regulated advice, would need to be supported by the provision of generic advice. The importance of engaging employers as well as employees was also highlighted as being important in this context.

The need for women to continue to be at the heart of the reform process was raised strongly; they have complex issues to consider, for example the impact of having children on their savings patterns, and would benefit greatly from advice.

The need for specialist advice for people on low incomes was also raised, with the interaction of the tax credits regime and the pension system highlighted as an example of where significant gains could be made by this income group. People working for small employers, who might put pressure on their employees to opt out of the new personal accounts, were also identified as a group with particular advice needs. It was also suggested that support would be needed to help people during the transitional period as the current regime is phased out and the new reforms are implemented.

Education, information and advice

There was strong agreement that information alone would not be enough to meet people's needs and that people should be prompted to engage in thinking about issues relating to saving for retirement on a proactive basis across the lifecycle. Many participants saw life stages as providing key opportunities for engagement and suggested that people should be encouraged to think in terms of having a 'retirement plan'.

Several participants also commented on the difficulty of getting people to engage with financial issues and the need to tackle this by improving financial literacy as well as by using catalysts and triggers. The need to clarify terminology such as information, education and advice also came out strongly.

The role of generic advice

A number of participants stressed that generic advice has an essential role to play in underpinning the new system of personal accounts, as well as in supporting pension reform more broadly. Independence and personalisation were highlighted as being key elements of such advice. It was also suggested that providing advice would produce savings in the long term as people would have less need for it as they became more financially capable.

Although many stressed the importance of promoting consumer engagement and improving understanding, it was also acknowledged that there is a trade off between giving people in-depth advice on the detail of their situation and simple advice to help them grasp the essentials of their position. Definitional issues were again raised, particularly the boundary between generic and regulated advice.

Lessons from New Zealand

There was strong agreement with the lessons identified from the New Zealand experience. The success of the *sorted* website in finding simple ways to explain complex information and in engaging people was identified as a key learning point, as was the emphasis on addressing financial needs across the lifecycle.

There was some discussion about the different context in New Zealand. It was suggested that regulation was less of an inhibiting factor than in the UK, with more willingness to provide advice as a result, which in turn helped foster a culture of self-reliance.

Options for delivering advice

A number of participants argued that there was no 'silver bullet' and that a range of solutions

would be needed including web-based information, generic advice and specialist advice. Some felt it important to press ahead with this agenda, rather than waiting for all the elements of the solution to be in place, and that giving people a valuable steer would be simpler and cheaper than providing optimal advice.

The need for a first point of contact was raised, with NHS Direct cited as an analogy, as was the need for specialist advice and effective referral mechanisms. The importance of harnessing new technology eg mobile phones and SMS messaging was also highlighted.

The cost of providing advice was also raised. It was suggested that there should be a recognition that higher level, more detailed advice should be paid for, to reflect its value as well as its cost. One idea was that vouchers could be given to people on low incomes in this situation, although it was also pointed out that this could discourage take up, with the experience of the Child Trust Fund cited as an example of this.

Conclusion

The seminar highlighted a strong degree of consensus that meeting people's information and support needs should be a priority in taking forward the pension reform agenda. It was stressed that information alone would not be enough to meet those needs and that people needed to be engaged in thinking about planning for their retirement across the lifecycle.

Many of the participants felt that generic advice has a critical role to play in supporting pension reform, as well as in improving financial capability more broadly. Independence and personalisation were highlighted as being important components of any generic advice resource. However, the need to clarify definitional issues was also seen as critical in taking this agenda forward.