Resolution Foundation: Response to *Personal Accounts: a new way to save*

1. Introduction

The Resolution Foundation welcomes the chance to respond to the Government's proposals for a new system of personal accounts. Personal accounts are a crucial tool in ensuring people on lower incomes save enough for retirement and we support the overall direction signalled in the White Paper.

Established in October 2005, the Foundation is a charity which carries out original research and develops policy proposals to influence government, industry and other stakeholders in its areas of interest. We are currently focusing on how people access and use the financial services system. Our main project is to investigate the potential for establishing a national financial advice resource to provide generic financial advice to people on low to moderate incomes (people who earn less than median incomes, but are more or less independent from state support).

This demographic is particularly relevant in the context of personal accounts and pensions reform more generally – the FSA's baseline study and our own research show that people on low to median incomes, who are more likely to be self employed or work for small firms, are significantly under-saving for retirement. For example, young people in this group are half as likely as those on higher incomes to be members of an available pension scheme; 32 per cent compared to 63 per cent.[1] As we explain below, they are also those individuals who have little or no access to generic financial advice, and yet may have the most complex decisions to make regarding their personal accounts.

The Foundation has conducted research into the financial well-being of those on low to median incomes and their use of financial products. We have also proposed, with support from McKinsey & Co, delivery models to address the advice gap identified by this research. We supported this with a cost-benefit analysis based on economic modelling by Deloitte. The Foundation also hosted a seminar in June 2006 discussing retirement planning and advice needs, which launched research carried out by the Pensions Policy Institute on the Foundation's behalf reviewing the experience of the Retirement Commission in New Zealand. More recently, the Foundation held an expert workshop in which a group of pensions and advice experts from Government, industry and the voluntary sector were brought together to explore how generic financial advice might be delivered to help people navigate their personal accounts decisions.

The following response draws on this research and consultation work. We will answer the consultation question: *What sort of information should support personal accounts and the responsibilities of different organisations in communicating this information?*

In January 2007, the Government published *Financial Capability: a long term approach.* This document launched a feasibility study exploring how a national generic financial advice service could be established. This feasibility study, led by Otto Thoresen from AEGON UK, specifies in it Terms of Reference that it must take

[1] *Closing the Advice Gap,* Resolution Foundation 2006

into "account of future developments in financial services markets and, in particular, personal accounts."[2] The Review will publish its findings by the end of the year.

James Purnell, Minister of State for Pension Reform, acknowledged the importance of generic financial advice as part of pensions reform in a speech to the Resolution Foundation's conference in March 2007. Committing his support to the work of the Treasury and the Thoresen review of generic financial advice, he stated "I hope that the work that is now in progress is moving us towards making generic advice a reality… we're now moving from the "if" stage to the "how" stage."[3]

Given the progress being made in this field, the Resolution Foundation will base the following response on the assumption that a national generic financial advice service will be operational before the personal accounts system is launched in 2012.

2. Key messages

- Pensions decisions are among the most complex and vital financial choices people make during their lifetime. Yet current understanding of the pensions system is low and the Pensions Commission's evidence suggests that many people are currently failing to plan adequately for their retirement. The Government's response – the introduction of auto-enrolment into personal accounts and state pension reform – promises radical change.

- It is envisaged that the new system of personal accounts will be simple enough not to require 'regulated' advice to navigate it, but will be able to rely on generic advice. As James Purnell explained at the our conference in March 2007, "This is vital is we are to keep charges low and increase the value of savings for members."[4] The Foundation supports this approach. Nevertheless, unless people actually have access to a reliable source of non-regulated financial advice, we believe that the 'financial advice gap' currently faced by those on low to median incomes will grow.

- The Foundation also believes that the introduction of personal accounts still leaves people with a number of important (and often difficult) decisions to make regarding their pensions.[5] For this reason, the quality and accessibility of any generic financial advice is all important.

- In fact, some experts have stated that the interaction of personal accounts with means tested benefits in particular renders many pensions decisions too complex to be adequately resolved with generic advice. They believe that independent (i.e. regulated) financial advice may still be required. The Foundation disagrees with this view and believes that this is driven by a misunderstanding of what can be achieved with generic financial advice.

- To illustrate this point, the Foundation hosted a workshop for pensions and advice experts to examine what advice ought to be given to help people navigate their personal accounts. The discussion which took place illustrated

[2] Thoresen Review of Generic Financial Advice, Terms of Reference
[3] Speech given by James Purnell MP, at the Resolution Foundation Conference: Generic Financial Advice – from Vision to Reality March 14 2007
[4] Ibid
[5] These decisions include whether to continue to participate in or opt out of personal accounts; deciding their contribution levels and investment choices; and deciding how to realise pensions assets alongside other issues such as long term care needs

how complex some personal accounts decisions could be, but made significant progress in demonstrating how generic advice could be used to explain the uncertainties associated with investment decisions, whilst remaining relatively straightforward.

- The uncertainties associated with many pensions decisions has led the Foundation to believe that providing *information* (as the consultation question states) to navigate personal accounts will often not be sufficient. Personal accounts decisions are not those that can be easily made via the use of an online calculator or a fact sheet. As such, information *and g*eneric advice are both needed.

- As we mention above, this need was acknowledged most recently by James Purnell MP in a speech to the Resolution Foundation. This view has also been supported by two separate Select Committees. In its report on the design of the proposed National Pensions Savings Scheme, published in May 2006, the Treasury Committee concluded:

  > 'We recommend that the Government give consideration at an early stage in implementation of an NPSS or any comparable measure to the design and availability of generic advice to those considering participation in the scheme as well as to scheme members.'[6]

  In its wide-ranging report on pension reform published in July 2006, the Work and Pensions Committee stated:

  > 'We conclude that a strong case has been made for the provision of free generic advice to those on below median incomes and recommend that DWP, DTI and the Treasury continue to work with organisations such as Citizens Advice and the Resolution Foundation to develop a model to meet the needs of this group and make the necessary resources available.'[7]

- Receiving generic advice is an interactive experience – delivered either face to face, online or over the telephone – so that information about an individual can be shared and then used to construct personalised advice. Our research concerning the preferences of low to median earners found the majority of people would prefer to have a conversation with someone (either over the phone or face to face) about their situation, rather than use an interactive tool online. In the context of pensions, a conversation with an adviser would enable people to discuss not only the factors they ought to consider, such as career breaks and affordability, but also how their attitudes to savings and risk might affect their decision. This is particularly important for personal accounts decisions which, as we explain below, are difficult to resolve with a "yes or no" answer and lend themselves more readily to explanations delivered as part of a dialogue.

- The experience of *Sorted* and the Retirement Commission in New Zealand demonstrates that integrating pensions advice with other forms of generic financial advice given throughout a person's life may be more effective in encouraging younger people to plan ahead for retirement.[8] It can also help

[6] *The design of the National Pensions Savings Scheme and the role of financial services regulation*; Treasury Committee, fifth report of Session 2005/06, HC 1074-I
[7] *Pension reform*; Work and Pensions Committee, Fourth report of Session 2005/06, HC 1068-I
[8] *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006

achieve better integrated, mutually reinforcing advice across the lifecycle – as James Purnell stated at the Foundation conference, "people probably wouldn't want just pensions advice – instead, they'd want to talk about their money in general."[9] This supports the coordinated approach to financial capability outlined in the Treasury's paper: *Financial capability: the government's long term approach*.

- Following the Government's announcement that it is committed to creating a national generic financial advice service, an opportunity has arisen for personal accounts and pensions advice to become an integral element of this wider service.

- In short, the Foundation agrees with the Minister of State for Pension Reform, in that we have moved from the "if" to the "how" stage in creating a generic financial advice service. Nevertheless, there are still a number of questions that will need to be resolved in the coming months. In the context of delivering pensions advice, these include: how would we develop the protocols on which the advice would be based? And how can we strike the right balance between communicating the uncertainties of pensions savings with the simplicity consumers will want? It is crucial that further research and consultation is carried out by the Government, in consultation with the private and voluntary sectors to ensure such questions are resolved.

3. Detailed Discussion

On March 1st, the Resolution Foundation hosted a workshop which brought together a range of experts from the fields of pensions and generic financial advice. Our aim was to explore how generic financial advice could be delivered to help people make decisions regarding their personal accounts. We asked the following questions:

1. How personalised could and should generic advice be in the context of personal accounts?
2. Presentation: how should we deliver generic advice to help people navigate their personal accounts decisions?
3. Content: what should the advice include?
4. How should we express the concept of uncertainty?

The discussions generated from these questions will form the basis of the following response.

What sort of information should support personal accounts and the responsibilities of different organisations in communicating this information?

As explained above, decisions regarding personal accounts are complex and, more importantly, based on an individual's own perceptions of risk and their expectations for retirement. As such, the provision of information alone may often not be sufficient to enable people to make such decisions. The provision of information is an important first step when explaining the new system of personal accounts to the public, and many queries could be resolved through an effective information

[9] Speech given by James Purnell MP, at the Resolution Foundation Conference: Generic Financial Advice – from Vision to Reality March 14 2007

campaign and informative website. Certainly for some people this will be enough to help them decide a range of important personal accounts decisions, and they may not need nor want generic advice regarding their pensions.

Nevertheless, for many people: in particular low to median earners; those who are less financially capable or confident in making decisions; and those with more complex decisions to make, information alone will not be adequate. We would urge the Government to build upon its information strategy and consider the need for a generic advice service that will help these groups to make the most of the opportunities presented by the new pensions framework.

What is generic advice?

The Treasury describes generic advice as:

"…unregulated advice which takes account of the specific financial circumstances of an individual, but which does not result in a product recommendation. Generic advice helps individuals to understand their current financial position, their available choices, and how to take steps to meet their needs."[10]

The Foundation has also drafted seven principles for the delivery of generic financial advice, which ought to be borne in mind when considering how to deliver advice in a personal accounts context:

1. Generic financial advice (GFA) should motivate people to make positive changes to their financial behaviour. Delivery is as important as content.
2. GFA must be personalised. Advice based on personal information and tailored to individuals' circumstances can still be generic.
3. GFA should always be delivered with a purpose in mind. Advisers should see the encouragement of savings, planning ahead and shopping around for products as key objectives.
4. GFA should not seek to provide a huge amount of information, but instead present a few sensible options.
5. GFA must work with people's tendencies to put off decisions and not plan ahead, by providing short term and interim goals, and encouraging small changes as well as long term planning.
6. Getting people involved in thinking of their own solutions is key to giving them ownership of their problems, and convincing them it is within their abilities to improve their financial health.
7. Finally, GFA must be presented not as a list of options, but as an action plan of 3 to 5 key steps to take.

What might it look like when helping people make personal accounts decisions?

It is very difficult to deliver advice regarding personal accounts with a binary (yes or no) answer. This is particularly the case when advising on whether to stay in or opt

[10] *Financial capability: the government's long term approach* HM Treasury, 2007

out of personal accounts, but also applies to pension contribution levels and other key decisions.

Binary answers cannot easily be given because: a) there are too many unknown variables regarding the future performance of personal account investments (see below); and b) there are not often completely “right” or “wrong” personal accounts decisions, but more frequently subjective preferences. For example, a person wanting to defer consumption and contribute to a personal account, even though the rate of return will probably be low, cannot be told by an adviser (or indeed anyone else) that they are making the “wrong” choice.

When a yes or no answer cannot be given, the outcomes of personal accounts decisions can more usefully be described in more dynamic terms, such as risk, rate of return, or income in retirement.

These three forms of description were discussed during our expert workshop. It was felt risk was too subjective as a concept – an adviser may talk about a “high risk” of losing money invested in personal accounts and this would be interpreted differently by each individual being advised. This use of the word “risk” might also encourage people to opt out of personal accounts unnecessarily (i.e. whereas “uncertainty” may be a more acceptable term).

Rates of return (expressed in monetary terms rather than percentages) or retirement income were seen as better ways of describing the possible outcomes of personal accounts decisions. These forms of information could be given as an objective figure, enabling the individual seeking advice to decide for themselves whether the rate of return/level of income in retirement was suitable for them.

The majority of those seeking advice would probably want to know how their decisions affected their retirement income, and would find this information the easiest to understand. Nevertheless, some people may view their personal account as an investment and will want to know the rate of return on their contribution.

In addition to providing estimates of future returns, the impact on a person’s *current* situation of different decisions should always be explained – this would be particularly important if someone had large debts, or for some other reason could not afford the contributions to a personal account in the short term.

Example:

-- Should I opt out of my personal account?

“Well whether you should stay in or opt out of your personal account very much depends on your situation, as well as how you feel about planning for your retirement. Some people want to maximise the amount of money they will have in retirement, for example, but other people put more value on the fact that they cannot spend their pension funds, unlike other types of saving.

If you give me some information about your personal circumstances I can give you an idea of how much you would have to live on in retirement if you stayed in or opted out, and then you can weigh up your options.”

--- personal information provided – see below

> “Ok, based on your income, if you contribute to a personal account now, the amount you take home at the end of the month will be reduced by XXX. Based on the level of debts you say you have, staying opted in might not leave you enough to live on and make your debt repayments.”

How might it be delivered?

1. *Based on personal information*

An adviser would require a range of personal information from an individual seeking advice in order to ensure it was personalised. This information might include:

- Age and marital status
- Income and state benefits being received
- State pension forecast (or income, career breaks and other career history in the absence of a forecast)
- Details of any other pensions
- Size of any savings and/or debts
- Expectations of how much retirement income a person will need

The experts at our workshop felt that expectations of income in retirement is a key issue that would need to be taken into account if personalised advice was to be given. People’s expectations will fundamentally affect what rate of return they will be hoping for regarding their personal accounts. Also, some people with high expectations will need to be advised how to save and invest more to top up their personal accounts provision, for example.

They also felt that whilst a career history is adequate to help estimate retirement income with and without a personal account, a much faster and more accurate estimate can be provided with a state pension forecast. Information on how to get a forecast for those who have not received one automatically ought to be provided as part of the associated literature of an advice service, so that people seeking advice are more likely to have their forecasts to hand. Although people seeking advice should not be turned away if they do not have their forecast, they should be advised to request one and then return to seek advice, as the advice given will then be more accurate.

2. *Using current circumstances*

While the advice being given should be personalised, the uncertainties around personal accounts mean that those delivering advice should not attempt to achieve a superfluous level of accuracy: changes regarding personal circumstances, Government policy and investment performance may all make advice that has been delivered inaccurate.

How many of these uncertainties are expressed when giving advice is a critical decision. Whilst describing more variables and possible future outcomes increases the accuracy of the advice, it also increases the complexity of the advice and sense of uncertainty. This may in turn increase the likelihood that people will become indecisive and not act on the advice being given.

In our expert workshop, a compromise was suggested to deliver clear and straightforward advice, but also highlighting the prospect of future alternative possibilities.

Firstly, a "ready reckoner" would be used to deliver a single estimated outcome. This would be based on a person's current circumstances and would make no attempt to predict changes in the Government's welfare system or a person's lifestyle.

Secondly, key variables that might effect this outcome would then be explained. If any applied to the caller, that specific trajectory might then be explained in more detail. This would avoid a detailed explanation of several alternative scenarios, but would help ensure people realised the advice being given was liable to change.

Example:

"based on what you've told me, and assuming nothing changes between now and when you retire, you are likely to get about XXX a week in retirement if you have a personal account and XXX a week if you opt out"

"But if X, Y or Z happens, this is likely to change quite a lot."

-- *Really? well actually I plan on Y*

"Ok well then if Y happens, the amount you contribute will probably go down to about XXX. This means that you are likely to get about XXX a week in retirement if you have a personal account and XXX a week if you opt out, once Y happens."

This method would then need to be delivered with a series of caveats:

- Such advice should be described as an estimate based on the current situation.
- If anything changed, either in the personal circumstances of the person seeking advice or the way the Government assessed eligibility for benefits, then the advice given may no longer be correct.
- The key question for the person seeking advice would then be whether he or she trusted that both situations would remain the same.
- Given the transitory nature of the advice being given, the organisation delivering advice would have to urge people to seek advice at least every five years, or sooner if anything in their lives change (e.g. they get married, inherit, and so on).

It is worth noting that one particular source of uncertainty – the way in which personal accounts interact with means tested benefits – has prompted some policy makers and other experts to doubt whether generic advice will ever be able to adequately navigate the complexity of personal accounts decisions. The existence of means tested benefits – in particular pensions credit – no doubt makes personal accounts decisions more complex for some individuals. Nevertheless, the experts at our workshop, and the Foundation, were both confident that the approach outlined above would be able to convey the uncertainty of future benefits eligibility sufficiently to allow people to make their own judgement on this issue.

Furthermore, receiving generic financial advice may encourage people to make personal savings for their pensions, and not rely on state benefits to provide them with the standard of living they would expect in later life. The economic modelling carried out on behalf of the Foundation by Deloitte demonstrates this point, as it found that those low to median earners acting on advice through their lifetimes would increase their retirement income by £1,500 a year through personal savings, and that their average pensions contributions would increase to 6 per cent of their salaries – double that required for auto-enrolment into personal accounts.[11]

As such, the creation of a generic financial advice service might, in the long term, render some people's pensions decisions *less* complex as they are less likely to be eligible for means tested benefits and therefore no longer have to factor this into their personal accounts decisions. As the Deloitte research shows, this could also deliver significant long term savings to the Government in reduced Pension Credit payments.[12]

The logistics of this approach

As mentioned above, one of the key design principles of personal accounts is that they are relatively inexpensive to administer. Keeping fees low should increase the value of saving for members. Using generic, rather than regulated advice, is one way costs can be reduced. Nevertheless, the level of training implied to deliver generic advice in the format outlined above could be significant, with potential cost implications.

At our recent conference, Robert Laslett , Chief Economist at the DWP, stated that one of the key challenges in creating an advice resource for personal accounts would be to deliver it cheaply enough to offer it as a free service to lower earners.[13] Experts at our workshop discussed this issue and made some suggestions as to how costs could be kept low. For example, an online calculation tool could be used to give advisers a quick and easy way to calculate rates of return based on information provided by the individual seeking advice. This would help lower the training requirements (and therefore costs) of an advice service.

This calculation tool could be combined with a partially scripted approach to deliver advice, which would enable advisers to run through a series of set questions and "decision trees" to allow them to arrive at the most appropriate pieces of advice and associated explanations and caveats (see above). This scripted approach is currently being explored by the Foundation in preparation for a possible trial of a generic financial advice service. This trial, the foundations of which we have begun to develop in discussion with the Thoresen Review team, would not provide pensions advice, but instead test the delivery of debt, borrowing, savings and mortgage advice. However we may use our script-writing experience following this exercise to create a personal accounts advice script to further illustrate how this lower cost approach might work in practice.

Another method of reducing costs is to deliver advice over the telephone. In 2006, the Foundation asked McKinsey & Co to model (with associated costs) some of the possible ways in which a generic financial advice service could be delivered. Their research found that the most cost effective method was via the telephone, with a supporting website and a limited face to face service. A survey of individuals on low

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[11] See *A National Dividend* and *The Advice Gain,* Resolution Foundation 2006 and 2007.

[12] Deloitte estimated that £50-100 million could be saved by the Government annually in Pension Credit within 10 years of an advice service being established. See *A National Dividend,* Resolution Foundation, 2006

[13] *Generic advice and pensions,* presentation given to the Resolution Foundation conference, 14 March 2007

to median incomes found only 10 per cent would insist on face to face advice and would not use a telephone service.[14]

As we explain in the following section, the Foundation believes pensions advice should be delivered as part of a larger generic financial advice service, which is now the subject of a feasibility study led by Otto Thoresen. The costs of this larger service, using a mainly telephone-based delivery channel, were calculated by McKinsey & Co as £35 to £45 million per annum if it served two million individuals.[15]

What are the challenges facing the delivery of generic advice?

The Foundation believes that the case for the provision of generic financial advice to help people navigate their personal accounts decisions (alongside broader money advice) is clear. We welcomed the recent comments made by Ed Balls MP, James Purnell MP and Otto Thoresen regarding the progress being made towards creating a national advice service with a clear remit to help people with their pensions decisions.[16] Nevertheless, a successful outcome is not yet guaranteed and much work remains to be done. In particular, there is still much research and policy development that needs to be undertaken before successful pensions advice can be delivered. Key strategic questions still need to be addressed, some of which we have attempted to answer through our own research. These include:

- How should we develop the protocols on which pensions advice would be based?
- What role would there be for regulation of those protocols?
- What governance and funding arrangements are needed to create an independent and efficient service that consumers trust?
- Whose role would it be to evaluate and monitor the quality and accuracy of generic financial advice?
- Which delivery methods should be used to meet consumer demand and ensure cost efficiency?

We have also attempted, through our research and hosting of expert workshops, to take some steps towards resolving some key operational issues. We also hope to undertake further development of advice scripts and supporting an advice trial with the Treasury, but more work will need to be done to explore:

- How to strike the most effective balance between delivering simple, engaging advice, whilst adequately conveying uncertainty and risk associated with pensions decisions.
- How to determine what consumers want and need to know, and how much they can assimilate and understand.
- How to motivate people to act on advice.
- How to refresh and reinforce the pensions savings message throughout people's lifetimes.

[14] See *Closing the advice gap,* Resolution Foundation, 2006
[15] Ibid
[16] These comments were made in respective speeches given at the Resolution Foundation conference, 14 March 2007

What are the responsibilities of different organisations in communicating this information?

Over the past 18 months, the Foundation has been exploring how a national generic advice service might be established to deliver advice on a range of financial issues, including pensions and retirement. As such, we believe the most effective way of delivering advice regarding personal accounts is as part of a integrated package of support delivered by a national governance organisation, which would have the responsibility of commissioning a telephone based generic financial advice service, but which would work in partnership with existing advice networks (such as CABx) to deliver face to face advice under a single brand (perhaps with accompanying national standards).

The value of a coordinated approach to providing generic financial advice was proven by the experience of the New Zealand Retirement Commission. The Retirement Commission was set up in 1995 to help financial planning for retirement, but by 2000 it realised that retirement was a concept that did not engage people until their late 40s, and that the 'retirement' message was putting off some people who needed advice. Young people and people who were not saving were less frequent users of the Commission's website than older people and those who were already saving for retirement.

As a result, the Commission began to address questions about *lifetime* financial planning, not just retirement itself. Thus, whilst the primary aim of the Commission is still to promote savings for income in retirement, this is not the starting point of the conversation with consumers. Its website now covers a range of personal financial issues, from debt management to saving, which often prompts people to think about planning for retirement where they might not have done otherwise.[17]

It is important, therefore, that advice and information regarding personal accounts and wider pensions planning is seen as one stage in the provision of generic financial advice throughout a person's life cycle. It is important that people consider their pensions options earlier than is currently the case, and establish a savings and planning approach to their finances as soon as possible. This may be more easily achieved if pensions advice is delivered as an integral part of a single generic financial advice service which deals with a wide range of lifetime generic financial issues. As we mention above, the costs of such a service, using a mainly telephone-based delivery channel, were calculated by McKinsey & Co as £35 to £45 million per annum if it served two million individuals.[18]

What might this single service look like?

As part of the work carried out on our behalf by McKinsey & Co, a series of focus groups were held and a survey carried out of 400 people on low to median incomes. Participants were asked about their financial wellbeing, their perceptions of the financial services industry, and whether and what sort of generic advice service they might use. From this research the Foundation was able to identify important elements of a successful generic financial advice service. These include:

- **Independence**: people would most trust an organisation which was independent from both the Government and the financial services industry – whilst the service could be financially supported by these stakeholders, the

[17] *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* Resolution Foundation and PPI, 2006
[18] Ibid

delivery of the advice would have to be the responsibility of a new or existing independent organisation (possibly a charity);

- **Joint backing**: linked to the issue of independence, 78 per cent of those surveyed stated they would trust the service if it was backed by the government and the financial services industry; and

- **Impartiality**: the advice and information being provided has to be removed from any sales process.

To this we might add:

- **Coordination**: an organisation providing generic pensions advice must ensure it is integrated with other generic financial advice provision. It is very difficult to separate pensions advice from savings, housing, debt and other advice and as we explain above it is better for these to be treated holistically.

What role would other organisations have?

We envisage that a national coordinating body would take responsibility for delivering a single national telephone advice service, supported financially by the Government and financial services industry. Such a service would need to work in close partnership with other existing advice organisations and local networks, not least to help it deliver the face to face element of a national advice service. It would also need to work with such organisations to ensure it reached as many people as possible. In order to provide pensions advice as part of the service, it would also need to work very closely with the proposed personal accounts Delivery Authority.

One of the Delivery Authority's first priorities will be to establish what generic advice might be required to help people navigate personal accounts. This will involve, in the first instance, working directly with a new advice service to establish the advice protocols required in this field and the standards of advice that should be expected. Its ongoing role would then be to ensure that the advice service had full access to all the information and materials needed to provide people with the most up to date and accurate advice and information. The Authority would also need to keep the service informed of any new developments or changes being made to the personal accounts framework – particularly so during the transition period around 2012.

A national generic advice service would also need to have strong referral relationships with a range of specialist advisory organisations. This is because generic financial advice, whilst providing valuable information and guidance on a range of issues (including personal accounts), is limited in both breadth and depth – some callers will have problems and queries which are either outside the remit (such as legal issues), or beyond the scope (such as debt problems) of generic financial advice. In other instances, generic financial advice might be able to help a caller to a certain extent, and then need to refer the caller on for further, more in-depth help or guidance. In both cases generic financial advisers will need to refer callers on to specialist services, such as Citizen's Advice Bureaux, the Community Legal Service, National Debtline, and, most importantly in the context of providing pensions advice, the Pensions Advisory Service.

TPAS will be a source of invaluable specialist pensions advice, delivered at a level of detail which may not be feasible for a generic advice service, but which many callers to the service may certainly require following a generic consultation. A "warm referral" relationship – whereby the generic advice service can pass cases which require more in-depth advice over to TPAS directly (therefore removing the need for callers to repeat their query and personal information to a second adviser) – is worth considering in this situation.

Other partnerships with community organisations – such as housing associations, Post Officers and GP surgeries – may also increase the reach of a national advice service. These front line intermediaries could refer people they see who needed financial advice on to the service – an approach which has been successfully piloted by the Community Legal Service[19] and is being developed by the Financial Inclusion Taskforce's *Now Let's Talk Money.*[20]

4. Wider implications of generic financial advice within a pensions context

As we explain above, the Foundation feels that the most effective way of delivering generic advice relating to personal accounts is as part of an integrated generic advice service. Last year, the Resolution Foundation commissioned Deloitte to create an economic model that would estimate the possible impact of a such a service on low to median earners and the Government.

This model estimated that if today's young low to median earners acted on generic financial advice throughout their lifetimes, they would be £60k better off by the time they were 60, and would enjoy an increase of annual retirement income of up to £1.5k. This increase would be driven directly by increased contributions to pensions pots. Acting on generic financial advice can enable people to improve their overall savings levels and manage their debts more effectively – meaning more people would be able to afford increased contributions to their personal accounts (Deloitte's most recent research suggested people acting on generic advice would contribute up to 6 per cent of their salaries into personal accounts if appropriate).[21] People acting on generic advice may also be less likely to opt out of their personal accounts due to inability to afford the contributions. As a result, many more individuals would be lifted above pensions credit eligibility – the model estimated that the Government could be saving as much as £50-100 million on pensions credit within 10 years of delivering advice.[22]

As such, wider generic advice – not just helping people to navigate their personal accounts but helping people with financial decisions *throughout* their lives – will be very valuable in improving the size of people's pensions savings in later life and reducing their reliance on income related benefits in retirement. This again supports the case for a holistic, life-long approach to delivering generic financial advice.

Summary of recommendations:

The Resolution Foundation has sought to answer the consultation question: *What sort of information should support personal accounts and the responsibilities of*

[19] See *Innovation in the Community Legal Service: A review of 22 projects supported through the Partnership Initiative Budget* Legal Services Commission, 2005
[20] Intermediaries (such as GPs, housing officer and social workers) have been identified to help encourage financially excluded groups to open a bank account.
[21] *The Advice Gain*, Resolution Foundation 2007
[22] *A National Dividend* Resolution Foundation 2006.

different organisations in communicating this information? By using the research and consultation work we have carried out over the past 18 months.

We have also placed our response within the context of recent developments in the field of financial capability – such as the need for joined up Government solutions to improving financial capability, heralded by *Financial capability: the government's long term approach,* and Otto Thoresen's feasibility study of a national generic financial advice service.

Our key recommendations are:

- Information *and* generic advice is needed to help people make decisions regarding their personal accounts.
- This advice must be based on the personal circumstances of those making decisions.
- It must be delivered in a way which is both clear and straightforward, but which ensures people understand the uncertainties associated with personal accounts decisions.
- It should be delivered in an integrated way, alongside other forms of generic financial advice and as part of a single national service.
- This service must have close relationships with the Delivery Authority, a range of existing specialist advice organisations, and community intermediaries to ensure it delivers the highest quality advice possible to the widest range of people.
- Although there have been several positive statements by the Minister of State for Pensions Reform and others, there is still much work to be done to resolve key operational and strategic issues before an effective advice service can be delivered.

Resolution Foundation, March 2007