

The requirement for pension providers and trustees to offer free and impartial face-to-face guidance on choices for defined contribution scheme members at the point of retirement was a key component of the pensions bombshell dropped by Chancellor George Osborne in his Budget this March. Nevertheless, even though this is due to be introduced with effect from April 2015, exact details remain scarce.

A recent National Association of Pension Funds (NAPF) poll found 78 per cent of its defined contribution (DC) fund members didn't understand what the government expects them to deliver. Furthermore, with the consultation period only closing this June, we are likely to have to wait until late summer or early autumn for further clarification.

### Impact on SMEs

What does seem clear is that the government will have to backtrack somewhat on its initial proposals. It is also highly evident that, whatever form the guidance guarantee takes, it will have far more impact on SMEs than on large companies – where it is only likely to be one element of the retirement support they offer.

According to the results of Towers Watson's latest *FTSE 350 DC Pensions Survey* released in April, three quarters of FTSE 100 employers offer annuity broking services to help retirees shop around for competitive rates, 43 per cent issue 'countdown to retirement guides' and a third offer pre-retirement counselling sessions.

Premier Companies director of sales and marketing Ian Guttridge reports quite a recent jump in the numbers of medium-sized

### Summary

- Details surrounding the requirement for face-to-face guidance at retirement, as stated in the Budget, are scarce.
- The guidance requirements will have a greater impact on SMEs as larger schemes are already likely to offer some form of guidance to members.
- The guidance already provided by schemes can vary greatly, from online tools to face-to-face IFA guidance. The use of group sessions has increased in popularity due to its cost-effectiveness.
- There is currently debate about the estimated costs of providing guidance and how it will be funded.
- There are suggestions that the government may water down the guidance guarantee pledge by removing the requirement for the advice to be face-to-face. Instead online or Skype-based services may be offered.

# Watered down

✓ **Edmund Tirbutt explores the current levels of guidance already offered by pension schemes, and questions whether the confusion surrounding the implementation of the 'guidance guarantee' will result in the government watering down its proposals**

and larger companies offering some form of guidance at retirement. He estimates the proportion has increased from around a third a year ago to a half now. This, he attributes, is as a result of the Financial Conduct Authority's review of annuity purchase announced in February 2013 and of The Pensions Regulator's Code of Practice 13 issued in November 2013, which requires employers to provide employees and members with enough information to make an informed decision at retirement.

But for companies with under 200 employees the picture is very different. These tend to have scarcer resources and are less likely to use a good intermediary or to employ a proper HR professional who realises the importance of retirement issues. Scottish Life

focuses primarily on schemes with between 50 and 250 lives, and its business development manager Fiona Tait estimates that less than 5 per cent of such organisations provide any guidance or advice.

The guidance guarantee is also likely to make the greatest difference to those with medium-sized pension pots.

LCP partner Bob Scott says: "If someone has a relatively low retirement pot of around £40,000 they won't require much guidance, if any, and will probably just take a cash lump sum, while people with more substantial pots would probably already have been getting guidance or advice in one way or another. So the guidance guarantee should have the biggest impact on people in the middle with between £40,000 and £150,000."



### Implementation

With the larger companies, the actual form that guidance or advice currently takes can vary markedly. Communications consultants AHC chief business development officer Karen Partridge observes anything from a full programme of financial education using online tools to face-to-face delivery by IFAs. Sometimes the latter involves full advice but most sessions are group seminars, typically attended by between 60 and 80 employees, and these are often aged between 45 and 55.

Indeed, with pension commission having ceased on new schemes as a result of the RDR and being due to cease on old schemes in April 2016, seminars are increasing in popularity over one-to-one advisory sessions. Lorica Employee Benefits, which focuses primarily on schemes with between 200

and 5,000 employees, has noticed a marked shift during the last 18 months. Up until then every one of its 300 pension clients provided actual advice to all employees at joining, mid-career, five to 10 years before retirement and at retirement.

Lorica Employee Benefits commercial director Tobin Murphy-Coles says: "The reason they did it was because it was all funded out of commission, so it cost nothing. But for any new pension schemes we set up the advice needs to be paid for by the

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employer or employee and, as it's quite expensive, employers have tended to implement workshops giving generic guidance, which they pay for. We agree seminar topics with employers and keep repeating them and inviting relevant employees along."

It would therefore be no surprise if, by the time the guidance guarantee is finalised, it took the form of a seminar rather than a one-to-one session, as the latter approach seems unaffordable.

This would not even require any backtracking on the part of the government as the original announcement referred simply

to 'face-to-face guidance' – although many people interpreted this as meaning one-to-one guidance.

### Costs

PTL managing director Richard Butcher says: "The FCA has said it won't be full blown financial advice, so it won't have to be given by an IFA. But, taking into account the travel involved, we must be talking about at least £1,000 per person for one-to-one face-to-face sessions. We still don't know the costs of the proposed guidance guarantee but the amount of money being speculated on to deliver it is £100 to £250 per person. Who is going to be willing to deliver it?"

However, the government may well have to backtrack on its original announcement that the free guidance will be at the point of retirement because there is a definite school of thought that people could benefit most from receiving it in their mid-50's, especially now the Budget pension changes have introduced so much more choice and flexibility. This approach would at least give people time to increase their levels of pension funding.

Whatever stage it is made available at, it is hard to see how guidance issued on such a widespread scale could ever be 'free'. One idea being commonly floated is that it will be paid for by a levy on DC pension schemes – which would effectively be paid for by scheme members.

The Pensions Management Institute technical consultant Tim Middleton says: "I don't imagine the government would pay, and a levy would mean it was free only in a roundabout way, and having just voted to cap charges on default funds for auto-enrolment schemes at 75 basis points, a further levy would be inconsistent with that principle.



"If guidance is very narrowly defined and can be covered in a half an hour seminar with around 200 people it would probably only cost £100 per person. But I would expect that by the time it's thrashed out it will focus on things like lifestyle changes, so I would expect it to need at least a couple of hours' seminar, and it would make sense

for those providing it to hold appropriate qualifications."

### U-turn?

Other commentators predict that U-turns from the Chancellor will result in the guidance guarantee being watered down to anything from a telephone or Skype-based service to an online one – possibly with the option of a telephone helpline for those with queries.

Aspire to retire principal Rob Tinsley says: "My view is that the government doesn't have a lot of choice other than to relax its stance and allow online advice. Organisations like The Pensions Advisory Service and the Money Advice Service don't have the resources to deliver what's proposed."

At the other end of the scale, Murphy-Coles even feels the government will have to stiffen up its original proposals to ensure everyone has access to full-blown advice.

He says: "Osborne will have to change his mind as there is an absolute need for both pre-retirement and at-retirement advice in addition to education. The conundrum is who should pay for it, and I feel it's the employer's responsibility to do so."

Perhaps a reasonable compromise would be to offer telephone or internet-based guidance that draws to people's attention the option of paying for full one-to-one face-to-face advice?

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**Written by Edmund Tirbutt, a freelance journalist**