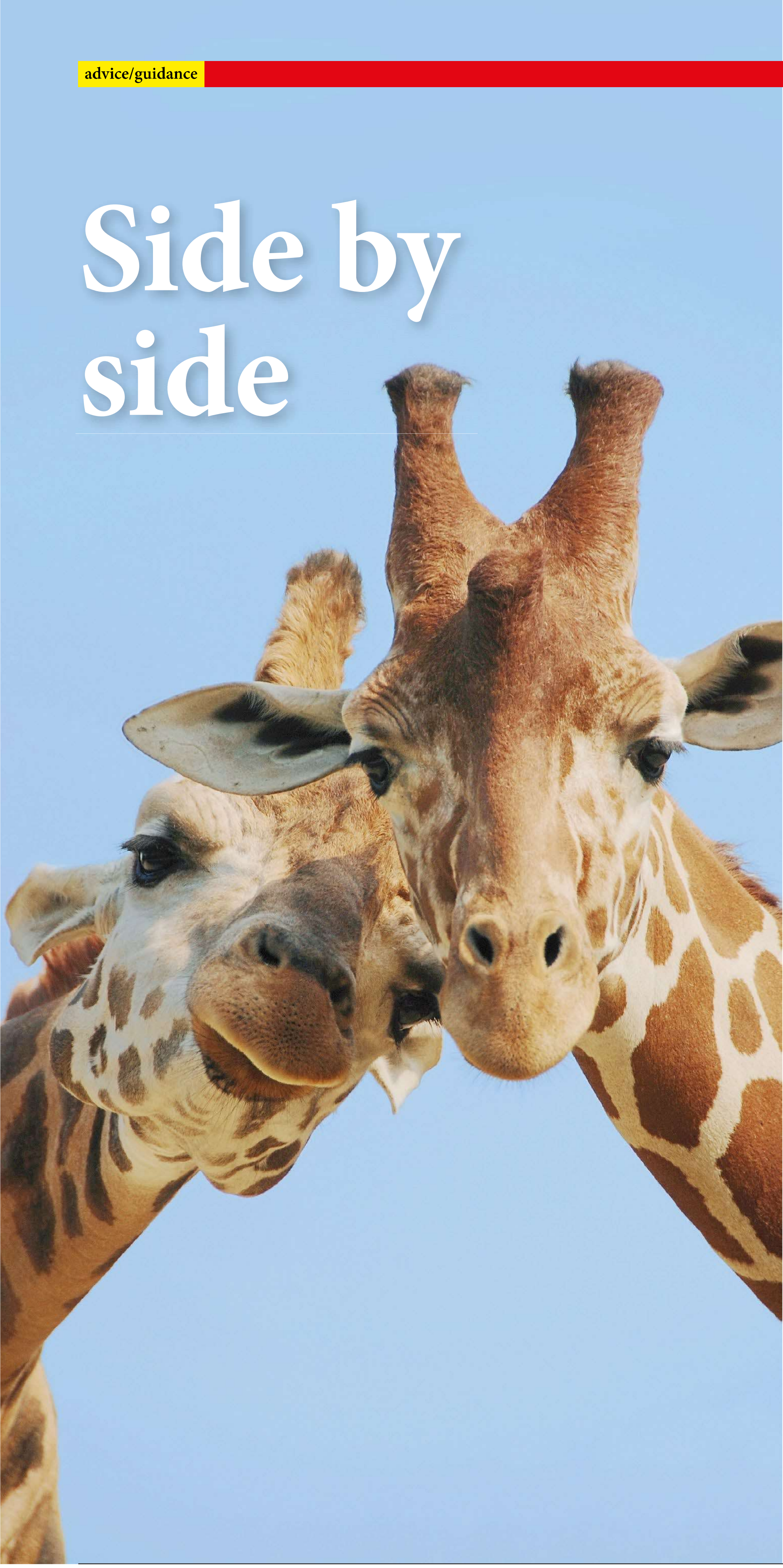

Side by side

Summary

- As more people rely on DC pension arrangements the need for guidance at, before and beyond retirement around how to use pensions savings and other assets to fund retirement income becomes more urgent.
- While guidance may be sufficient for many people, and services like Pension Wise and MoneyHelper can be very useful, take up of these services is still relatively low. People working for smaller private sector employers and members of smaller schemes are sometimes poorly served and informed about guidance or advice.
- Employers can also play a valuable role in helping people access guidance or advice.
- Regulatory changes may help improve the scope, clarity, reach and value of guidance.
- Tying guidance into a more holistic view of financial wellbeing may deliver better outcomes and help to engage younger people in thinking about pensions and retirement.

With growing numbers of people likely to be saving in 'to and through' DC pensions during the decades ahead, the need to ensure access to useful guidance and – if appropriate – regulated advice at different points in peoples' lives will become more important. David Adams looks at how support for DC savers could and should be improved in future

The UK's DC pension savers need help. Auto-enrolment has brought millions more people into pension saving, but the nature of the DC system and widespread passive reliance on default contribution rates and investment pathways means they will need accessible, comprehensible and affordable support and guidance before, at and beyond retirement.

"The DC pension challenge is unique," says Scottish Widows master trust lead, Sharon Bellingham. "No other product is as critically important and so long term, against a backdrop of low levels of engagement, no sense of ownership and relative complexity." She says recent Scottish Widows research found that "people who considered themselves financially literate and financially confident did not necessarily feel and behave the same when it came to managing their pension".

Wealth at Work director, Jonathan Watts-Lay, suggests that: "Ten years before your estimated retirement date, you should be getting guidance on the options available at retirement, particularly if people are going into drawdown."

In need of guidance

For many people the answers to the most important questions could be found through guidance, rather than regulated financial advice, says Buck UK benefits consulting leader, Mark Pemberthy. "The decisions that really matter are, how should I be accessing income from my pension – annuity or drawdown; and if I go into drawdown what is a sensible level of income?" he says. "The answers to those questions can be delivered by guidance."

The growing numbers of DC savers whose pots are managed by master trusts or other large pension providers may benefit from the scale and resources of those trusts and providers enabling them to access guidance services. But not all DC schemes will be able to offer much dedicated or tailored support.

In addition, the process of trying to engage savers or members may be hampered by poorly designed materials and processes, says Hymans Robertson DC investment consultant, Kirsty Moffat. "A lot of communications are very jargon-heavy, using terms that we in the pensions industry are comfortable with, but that are new to many people," she explains. "It's about getting the message across in bite-sized pieces, telling people where they can go for guidance."

In theory, savers with pots managed by large providers or master trusts should be able to rely on some well-resourced, well managed communications processes. But it may be difficult for guidance delivered by providers or master trusts to provide a more holistic picture without straying towards the line between guidance and regulated advice.

"No other product is as critically important and so long term, against a backdrop of low levels of engagement, no sense of ownership and relative complexity"

"*[Employers and trustees]* are quite reluctant to risk stepping into that regulated advice area," says The Pensions Regulator interim director of policy, analysis and advice, Lou Davey. "But are people being too risk averse? That boundary could possibly be pushed a little bit more. That's something *[the regulator]* would quite like to explore."

Spreading the message

Even when comprehensive guidance is available it may not be used by many members/savers. "There are some really good solutions out there – a lot of schemes provide good support for people at retirement and mid-life MOTs – but levels of usage are pretty low," says Pemberthy.

This is also the case for the guidance provided by the Money and Pensions Service (Maps) through Pension Wise and MoneyHelper. Figures from Maps show that about half a million people per year accessed its digital tools (such as contribution or annuities and drawdown calculators) between 2018 and 2021, while roughly 200,000 people used its guidance services across all service channels (phone, writing, virtual and face to face).

Davey points to work that has been done to increase take up of these services. Everyone aged 50 and over is now entitled to a Pension Wise appointment and national communications campaigns have spread this message.

Since June 2021 scheme trustees and providers of personal and stakeholder pensions have also been required by the FCA to give savers a 'stronger nudge' to use Pension Wise if the saver decides to access their pension savings (not if transferring to another FCA-regulated pension scheme). Trustees or providers must refer individuals to the service, explain its purpose and offer to book an appointment for them. Individuals must either use the appointment or provide a formal notification that they have declined it.

Clearly, some people slip through the net: Watts-Lay cites employees of smaller private sector companies. "I think organisations like Maps need to be more focused at that smaller end and on the self-employed," he says.

The need for regulated advice is less likely to be urgent for a majority of DC savers. "I think it is important to see advice as a premium service," says Pemberthy. "It can cost a couple of thousand pounds, so you've got to be getting a couple of thousand pounds' worth of value in order for it to be worth your while taking that advice. Are most people, with assets in well-regulated pension plans, going to get thousands of pounds' worth of value by taking advice? In a lot of cases, probably not."

Personal Investment Management and Financial Advice Association (PIMFA) head of public affairs, Simon Harrington, says there is a need for government and regulators to improve access to regulated advice where appropriate, but also suggests that many people with a workplace pension "should be well catered for by organisations like Pension Wise, which will give them the right information about what sorts of solutions may be right for them".

A coordinated efforts across industry

Pemberthy also highlights the importance of the employer. "We already see differentiation between how people engage with their pensions depending on the level of prominence and support employers give to this issue," he says. "More encouragement to engage gets more take-up. Employers can make a difference."

Barnett Waddingham partner, Paul Leandro, thinks regulatory/legislative change could help to bring more clarity to communications between schemes or providers and members/savers.

"One frustration for providers is the amount of regulation they have to comply with when communicating," he explains. "If providers are talking about a particular product they have to use certain language and there are pages of information and risk warnings. If regulators could allow the industry to simplify that language, that would be helpful."

Harrington says PIMFA would also like "an element of liberalisation of the advice/guidance boundary, in order to allow providers to use an element of personalisation in order to get people to a better outcome".

"Providers should be able to write to an individual and say: 'We are concerned that you are decumulating too quickly', or 'You could be making further contributions'," he says. "A liberalisation of guidance in order to allow an element of personalisation … *[would allow]* firms to provide information that is more engaging, more specific to the individual; and which encourages them to make a decision without recommending what that decision should be. A solution like that would benefit Pension Wise as well."

Davey says The Pensions Regulator and the FCA are discussing the possibility of making changes that could help employers and trustees to provide guidance.

Tying discussion of pensions into broader questions about an individual's overall financial wellbeing will also help.

"If you want to influence younger members around saving more it's important to talk to people about their retirement in the context of their overall financial circumstances," says Pemberthy. "That's the missing piece for me: Stopping talking about pensions in isolation. If we extend guidance so it is more holistic, with rules of thumb around what good behaviours are, in terms of how you access money and a sustainable level of income … with a proportionate regulatory environment, that to me feels like an environment where people can be supported to take a decision. I think guidance is the right way to help most people, if you can make that guidance more holistic and relevant."

"I think it is about having a coordinated effort across industry – both the pensions industry and employers running pension schemes," says Davey. But she also thinks better engagement and ultimately better outcomes may result from a greater willingness to discuss broader issues around people's finances. "Let's just get more people talking about their financial situations, because retirement planning is part of your overall financial wellbeing," she says. "We need to get more people talking about it."

Written by David Adams, a freelance journalist