The value of good advice

Subsidising member advice might just be one of the shrewdest moves ever made by a trustee board or an employer, Ian Gutteridge reveals

Since pension freedoms came into force in 2015, members from all types of pension arrangements have expressed interest in the way they can retire.

A number of employers and trustee boards have launched member incentive exercises, aiming to reduce scheme costs and liabilities from their defined benefit schemes.

Hundreds of thousands of pounds are easily spent on such exercises and the return on investment can be significant. However, with IFA capacity reaching a ceiling, the option of introducing a 'business as usual' service, where the trustee board or employer provides a subsidised advisory service can be highly cost effective, albeit without the need to splash out the huge sums to cover the entire cost of advice.

Why 'business as usual'?
An option where pension scheme members, on reaching retirement, or considering a transfer of benefits, have access to a dedicated adviser can provide a range of benefits to all parties.

Having access to an adviser who understands fully, the existing pension scheme and who can explain member options, including the pros and cons of pension freedoms is appreciated by the member. Good member outcomes and excellent member appreciation are essential targets.

A happy and appreciative employee is great PR for the employer.

The HR director should be happy to deflect awkward member questions in the direction of the IFA. The finance director should appreciate that employees are making the right decisions with those who end up transferring their DB pension, over time, removing reasonable levels of unfunded liabilities.

However, it is trustee boards who have the hardest decisions to overcome. On the one side, the trustee wants to help their members, providing education and a service that ensures the right member outcome. On the other side sits the trustee who worries about endorsing an advisory service, which if it goes wrong, could result in reputation damage.

Selecting the right IFA
To overcome concerns, trustee boards should participate in any selection of an adviser.

Selecting an adviser who can demonstrate a robust advisory service and who avoids an industrialised service, which removes the personal touch, is essential. Removing the personal touch can lead to a loss of softer facts relating to a member, which can be decisive in determining the right course of action.

They need to avoid the cheap, low-cost adviser option as ultimately the service will lack the essential thoroughness that is required when undertaking one of the most complex transactions in financial planning.

But equally they should avoid the high fees that IFAs cannot justify. Striking a balance between a good quality service, but ensuring you don't pay through the nose is essential.

Paying for the service?
This is the dilemma for many trustee boards and employers. If you pay for nothing, you will get minimal take up rates and the service could end up being equally poor.

In contrast, if you pay for the entire service, the member will be happy, but you could find the expense incurred may become excessive.

From our experience, a small employer subsidy that meets part of the advisory cost is all that is required. An outlay that might be between £250 to £750 will be appreciated by the member and if used correctly, can assist the member in working out if pension freedoms are right for them. It can also be used by the adviser to design a service that ensures only the right individuals transfer.

If the overall service is transparent, robust with a capped cost, ensuring members avoid a contingency charging structure (i.e. avoiding the scenario whereby the adviser is only paid if the individual transfers) and the fees are broken down into various components, will add value to the proposition.

Our experience shows that trustee boards, employers and importantly, the scheme member/employee will all benefit.

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