

Department for Work and Pensions

Research Report No 289

Advice on pensions and saving for retirement: Qualitative research with financial intermediaries

Elaine Kempson and Sharon Collard

A report of research carried out by Personal Finance Research Centre, University of Bristol on behalf of the Department for Work and Pensions

Corporate Document Services

© Crown Copyright 2005. Published for the Department for Work and Pensions under licence from the Controller of Her Majesty's Stationery Office by Corporate Document Services, Leeds.

Application for reproduction should be made in writing to The Copyright Unit, Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ.

First Published 2005.

ISBN 1 84123 895 3

Views expressed in this report are not necessarily those of the Department for Work and Pensions or any other Government Department.

Printed by Corporate Document Services.

Contents

Acknowledgements	vii
Authors	viii
Summary	1
1 Introduction	9
1.1 About the research	10
1.2 This report	12
2 The advice marketplace	13
2.1 Independent financial advisers	14
2.2 Tied and multi-tied advisers	15
2.3 Authorisation of advisers	16
2.4 Training of advisers	17
2.5 The impact of recent changes in the marketplace on advice for people on lower incomes	19
3 Retirement advice to individuals through financial intermediaries	21
3.1 Advice on retirement	21
3.2 What types of people do financial intermediaries give advice to? ...	22
3.3 How are clients recruited?	23
3.4 Factors influencing take-up of private pensions	23
3.4.1 <i>Main triggers for making private pension provision</i>	24
3.4.2 <i>Main barriers to making private pension provision</i>	24
3.5 The advice process	25
3.5.1 <i>Disclosure of information</i>	25
3.5.2 <i>Information-gathering</i>	27
3.5.3 <i>Advice and recommendations</i>	28

3.6	Retirement advice to people on low incomes	29
3.6.1	<i>What products would financial intermediaries recommend?</i>	30
3.6.2	<i>Two scenarios to illustrate the advice given to people on low incomes</i>	31
4	Advice to individuals on State provision for retirement	33
4.1	Basic State Pension	33
4.1.1	<i>Advice given on the basic State Pension</i>	34
4.2	Additional State Pension	36
4.2.1	<i>Advice given on the additional State Pension</i>	36
4.3	Pension Credit	37
4.3.1	<i>Knowledge of Pension Credit</i>	38
4.3.2	<i>Advice given on Pension Credit</i>	39
4.4	Other income-related benefits	41
4.5	Sources of information on State provision	41
4.6	Knowledge of State provision among headquarters staff	43
5	Advice in the workplace	45
5.1	The provision of pensions through the workplace	46
5.2	The provision of pension advice through the workplace	46
5.2.1	<i>Format and content of presentations</i>	47
5.2.2	<i>Coverage of State pension provision in presentations</i>	48
5.2.3	<i>One-to-one advice</i>	49
5.3	Factors influencing the take-up of employer-based pension schemes	49
6	Conclusions and policy implications	51
6.1	Information for financial intermediaries	52
6.2	Advice for people on lower incomes	53
6.2.1	<i>Basic advice regime</i>	54
6.2.2	<i>Role of advice centres</i>	54
6.2.3	<i>Advice through the workplace</i>	55
6.3	Overcoming the barriers to saving for retirement	56
Appendix A	Research tools	57
References	65

List of tables

Table 2.1	Composition of firms in the IFA sector in the UK	14
-----------	--	----

List of figures

Figure 2.1	Distribution channels for the sale of pensions	14
Figure 2.2	Certificate in financial planning – State Pension coverage	17

Acknowledgements

The Department for Work and Pensions funded this study. We would like to thank Arthur Fleiss and Claire Murphy, who were our main contacts within the Department.

We would also like to thank the following people who were involved in the study.

Nick Smith and his team at The Research Partnership carried out the screening and recruitment of financial intermediaries. Gerry Gibbs (Salient Research Limited) carried out most of the interviews with financial intermediaries and assisted with the data analysis. Michaela Cummings and Pat Hewson transcribed the interviews to their usual high standard.

Tony Herbert (Association of British Insurers), Samantha Mitchell (British Bankers' Association) and Fay Goddard (Association of Independent Financial Advisers) provided us with valuable information about the pensions industry and the provision of financial advice. The draft report also benefited from the comments of Brenda Gibson (Financial Services Authority).

Finally, we would like to thank the financial intermediaries and headquarters staff who willingly gave up their time to be interviewed.

The Authors

Elaine Kempson and **Sharon Collard** work at the Personal Finance Research Centre (PFRC), based in the school of Geographical Sciences at the University of Bristol. Elaine is a Director and Professional Research Fellow at PFRC and Sharon is a Research Fellow.

Summary

This research was commissioned by the Department for Work and Pensions (DWP) to investigate the role played by financial intermediaries (such as independent financial advisers and advisers employed by banks, building societies and insurance companies) in the provision of advice about saving for retirement. Within this objective, the study sought to increase understanding about how income-related benefits affect that advice.

The core of the research involved depth interviews with 45 financial intermediaries who provide advice to the public at a local level. Of these, 30 were independent financial advisers; 15 were advisers employed by banks, building societies and insurance companies. They all worked in one of four areas with above-average proportions of people with low-to-middle incomes. A further 11 interviews were held with senior staff working at the headquarters of pension providers. Six of the interviews included details of workplace presentations.

The advice marketplace

Changes in the marketplace for advice on saving for retirement have raised the quality of advice offered, although the availability of advice for people on lower incomes has declined.

The great majority (98 per cent) of personal pensions are bought as part of an advised sale, with most (84 per cent) bought through an independent financial adviser (IFA). There are about 44,000 IFAs in the UK, a large proportion of whom work in one of the 10,200 small IFA firms, many of which are members of IFA networks. There are, however, about 300 large firms some of which are owned by banking groups. These larger firms often have specialist pensions divisions.

A minority (15 per cent) of personal pensions are bought through tied or multi-tied advisers. These include:

- direct sales staff of pension providers;
- advisers employed by bancassurers (high street banks that manufacture their own pension products or acquire a pension provider through merger or takeover);
- tied (or multi-tied) agents who are legally distinct from the pension provider but have an arrangement to sell its products.

In addition many pension providers have dedicated teams of staff who make generic presentations in the workplace. Most of these are not, however, authorised to give advice to individuals.

The decline in direct sales forces and increase in IFAs has led to more restricted access to advice for people on low or moderate incomes.

On the other hand, changes to the way that advice is regulated have improved quality. To give advice on investments, including pensions, a financial intermediary must be authorised by the Financial Services Authority (FSA) – or be the appointed representative of another firm that has got FSA authorisation. They must also have an ‘appropriate’ qualification. The Financial Services Skills Council maintains a list of the qualifications that are considered appropriate. Once authorised, a financial intermediary must comply with the high level standards set down in the FSA Handbook and also with the rules contained in its Conduct of Business sourcebook.

The basic training currently received by financial intermediaries covers state pension provision (basic State Pension, additional State Pension and Pension Credit) in some detail. Many of those trained before 2004, however, had not received Pension Credit training.

Retirement advice to individuals through financial intermediaries

All but a few of the financial intermediaries interviewed provided advice to individuals across the range of FSA regulated activities¹ and only a minority said that half or more of their work involved advice on planning for retirement. Almost all of them also said that they would provide advice to anyone who sought it, regardless of their income. In practice, though, most of them advised very few people on low incomes – if any at all.

A high proportion of the people advised on pensions or retirement planning were existing clients. There was broad agreement that very few consumers actively seek advice about these issues. Instead, they tend to be raised by the financial intermediary in the course of a more general financial review.

¹ These include investments, mortgages and general insurance.

Experience of financial intermediaries showed there are four main triggers for people making private pension provision, the most important of which is the level of retirement provision that people could expect from the State. Indeed this was often used by them as a 'spur' to make clients consider seriously the need to make extra provision for their retirement. Other important factors included media coverage, reaching early middle-age and the influence of family or friends. There was, however, a prevailing view that few triggers are widely effective and, as a consequence pensions have to be sold – they are not actively bought.

The main barrier to people making private pension provision was identified as lack of consumer confidence in long-term savings, in pension providers and in advisers. This has resulted in consumer inertia with regard to planning for retirement. Affordability ran a close second, followed by a perceived widespread lack of understanding among the general public about pensions and how they work. Hardly any financial intermediaries said that eligibility for Pension Credit or income related benefits acted as a deterrent.

Advice was invariably provided face-to-face and this usually took place over two or three meetings. To comply with FSA rules, the advice process has become increasingly standardized and has three main components. It begins with an initial discussion between the adviser and client (usually free-of-charge), in which the terms of business are outlined, along with the type of service the client can expect, the payment options and the likely cost. The second component is the collection of personal and financial information about the client, commonly called a fact find. At the third stage the financial intermediary will provide advice and may also make recommendations to the client about the action they should take.

The advice given and the recommendations made were tailored to individual circumstances and what people could afford. Many financial intermediaries said that they would be likely to recommend a Stakeholder pension to people on lower incomes, especially if affordability was an important consideration. Some, however, believed that low-income clients should be advised either to have adequate insurance to provide financial security for children and/or partners or to build up a financial cushion of cash savings before considering long-term saving for retirement. Pension Credit and income-related benefits were rarely mentioned in this context.

Advice to individuals on State provision for retirement

There are three key components of State provision for retirement: the contributory basic State Pension; the additional (or Second) State Pension (and its predecessor State Earnings Related Pension Scheme (SERPS)), which are earnings-related and Pension Credit, which is income-related. In addition, low-income pensioners may qualify for other income-related benefits such as Housing Benefit and Council Tax Benefit.

The FSA rules leave open the extent to which State provision for retirement should be taken into account when advising clients on retirement planning. Consequently, there were wide variations in the practice of financial intermediaries, largely resulting from a widespread view that future State provision is complex and uncertain for all but those approaching retirement.

Basic State Pension

On the whole, financial intermediaries felt they were reasonably well-informed about the basic State Pension. It had been covered in their basic training and they knew they could check the DWP website for details if needed. Some discussed possible entitlement in detail, using personal State Pension forecasts from DWP. Others discussed the basic State Pension in general terms only, if at all, stressing their view of its inadequacy and, on occasions, as a tactic to spur people into making their own provision.

Additional State Pension

Most of the financial intermediaries we interviewed commented on the complexity of the additional State Pension. They said that their clients were confused by it and admitted to finding it complicated themselves. Although the additional State Pension had often been covered in their initial training, this generally related to SERPS because they had trained prior to 2002. They felt much less well-informed about the more recent changes. Consequently, there was fairly widespread unease about advising clients on whether to contract in or to contract out of the State Second Pension.

Pension Credit

Throughout the interview, financial intermediaries were asked questions that were used to assess their level of knowledge of Pension Credit. These included questions on the barriers to take-up of pensions among people on low incomes; whom they would advise against taking out a personal pension; their views of State provision generally, and Pension Credit in particular. It also included more direct questions about how they rated their knowledge of Pension Credit; what advice they gave about it, and details of the last case where it had been discussed.

On the whole, levels of knowledge of Pension Credit were not high, although they were higher among the tied advisers in banks, building societies and insurance companies than they were among IFAs. Most financial intermediaries knew very little indeed. They ranged from people who admitted to never having heard of it to those who had a broad awareness. They commented that they were never asked for information about Pension Credit and had few clients it was likely to affect. On the whole they saw it as something that affected people who were already retired rather than as another factor to take into account when advising on personal pensions. None of them felt able to advise clients about Pension Credit and most of them could not remember the last time it had come up.

A small number of financial intermediaries had a basic understanding of Pension Credit. This extended to knowing that it is income-related and a view that people with low incomes might not be much better off in retirement if they took out a small personal pension. They also commented on its complexity and possible disincentive effect. Although they advised a relatively high proportion of their clients on retirement planning, few of these had low incomes. They, too, lacked confidence about advising on Pension Credit and none of them could remember the last time it had been discussed with a client.

Only a few financial intermediaries had more than a basic knowledge of Pension Credit. They thought that older people with minimal pension provision might be little better off with a personal pension and commented in detail on the way they felt Pension Credit reduces incentives to save. Most of them were general financial advisers in bank or building society branches, so retirement planning was only a very small part of their work (typically between five and 20 per cent) and little of this involved people with low incomes. All of them could remember the last time Pension Credit had come up in discussions with clients, but said that it did not happen very often.

Senior headquarters staff were, generally, fairly well-informed about Pension Credit. Their views were that it can potentially create disincentives for people to save, although they felt the actual impact on decisions made by the public was minimal. They also raised fears about mis-selling – a point that none of the local financial intermediaries raised in this context.

Other income-related benefits

Other income-related benefits such as Housing Benefit and Council Tax Benefit very rarely, if ever, arose in discussions between financial intermediaries and their clients. As a result, levels of knowledge about these benefits were even lower than knowledge of Pension Credit. The minority of financial intermediaries with more than a basic knowledge of Pension Credit tended also to be the ones that were also aware of these other income-related benefits and their potential impact on the income of someone with only a low level of saving for their retirement.

Sources of information on State provision

Most of the financial intermediaries had taken the old Financial Planning Certificate (FPC), which had much more limited coverage of State provision than either the Certificate in Financial Planning (CPF) (which replaced the FPC in 2005) or the Certificate for Financial Advisers (CeFA). Most of them had received little refresher training on State pension provision since as time for training was limited and they concentrated on areas that they most needed for their work. With few clients on low incomes, Pension Credit and income-related benefits were very low priorities. All, however, received regular information up-dates – tied advisers from their employer or pension provider; IFAs from their network or other servicing body. Although they

took note of changes relating to the basic State Pension, they rarely read anything about Pension Credit. Many said that if they needed information they would turn to the DWP website.

Financial intermediaries' knowledge of State provision reflected this picture of training and information gathering. In particular, the small number who had more than a basic knowledge of Pension Credit were most likely to have covered it in their basic training and to have received information on the topic in their up-dates.

Advice in the workplace

Most of the financial intermediaries who were interviewed gave little or no advice in the workplace. Larger pension providers, however, often have teams that specialise in selling, implementing and maximising membership of employer-based pension schemes. This can be part of a wider service that offers expertise on employee benefits more generally. Providers may also work with IFA firms to develop this area of business.

Without exception, the presentations they made to employees only provided generic information about the pension scheme and planning for retirement. For regulatory reasons, the presenters were not allowed to provide advice or make any recommendations during the course of the presentation. In some cases, one-to-one advice was available outside the presentation, but this was not commonplace.

Presentations were usually in the form of PowerPoint presentations, followed by a question and answer session. Presentations, typically, covered the reasons why people should save for their retirement, details of the employer's pension scheme including its benefits and, where appropriate, the amount that their employer would contribute. Some included illustrations of how much income employees could expect from their pension scheme, based on different levels of contributions and different starting ages.

The basic State Pension was covered in all the workplace presentations, but this was generally restricted to the amounts payable to those retired now and how those amounts might change in the future. Only a few presentations mentioned additional State Pension, but again this was fairly rudimentary. Only one mentioned Pension Credit and included it in its illustrations of the assistance available from the State. Staff from another company were trained to answer questions about Pension Credit if the topic arose and presenters from all teams had a basic knowledge of Pension Credit and would have been able to answer simple questions. Moreover, one of the pension providers also ran pre-retirement workshops for employees and these covered State provision in much greater detail, including Pension Credit and other income-related benefits.

On the whole, people involved with workplace presentations were more knowledgeable about Pension Credit than the local financial intermediaries who concentrated on one-to-one advice. This almost certainly reflects the fact that they come into contact with many more people on low or moderate incomes.

In the opinion of those involved in workplace pension schemes, the availability of employer contributions was a key driver to increasing take-up among employees. Without such contributions, it was very difficult to get employees to join the scheme and, even then, they met considerable apathy especially among the low-waged. The impact of Pension Credit and other income-related benefits was not, however, seen as a major deterrent.

Conclusions and policy implications

Few people actively seek advice about saving for retirement and clients of financial intermediaries include very few people with lower incomes. As a consequence financial intermediaries rarely, if ever, discussed Pension Credit with their clients and their levels of knowledge were fairly low. Linked to this, there was little evidence to suggest that Pension Credit makes financial intermediaries reluctant to advise people with lower incomes, nor did they think it played an important part in clients' decisions regarding saving for retirement.

Information for financial intermediaries

As part of its programme of work on enabling people to make informed choices for retirement, DWP has developed a number of information initiatives that are potentially of real value to financial intermediaries, including State Pension forecasts, Combined Pension Forecasts, the Real Time Pension forecasting e-service, a Pension Credit calculator, and a Web-Based Retirement Planner that will be launched in spring 2006.

Many – but by no means all – financial intermediaries already make full use of the State Pension forecast service and find it a useful tool in their work. Given their generally low levels of knowledge of other aspects of State provision, these tools should be actively promoted to them through IFA networks and pension providers. The Financial Ombudsman Service uses roadshows and other events to engage in a direct dialogue with IFAs and other financial intermediaries. The Pension Service may wish to consider something similar to promote the information initiatives that have been developed. In developing the Web-Based Retirement Planner, and the DWP website generally, the needs of financial intermediaries should also be borne in mind.

To make the most effective use of these tools, financial intermediaries require at least a working knowledge of the State pension system. In this respect, a closer working relationship between the Pension Service and those involved in providing information and training to IFAs (such as IFA networks and pension providers) could be beneficial, particularly with regard to the overall relationship between State and private provision for retirement.

Advice for people on low incomes

There is clearly a gap in the provision of advice on pensions and retirement planning to people on lower incomes. Most advice in this area is given through IFAs, but it is unrealistic to expect them to expand their work with people on low or moderate incomes. Few people with lower incomes would be willing to pay for fee-based advice and the levels of commission payable on small pension contributions mean that IFAs can earn little from advising them.

A number of initiatives have been designed to increase the availability of advice to people on low or moderate incomes. They include the introduction of a basic advice regime for simple savings and investment products like Stakeholder pensions; developing the generic advice on financial products provided through not-for-profit advice centres, such as citizens' advice bureaux, and allowing employers who provide and contribute to a pension to promote it to their employees. This research suggests that, at least in the short-term, the last of these will have the greatest impact on pension provision.

Overcoming the barriers to saving for retirement

According to the financial intermediaries interviewed in this research, apathy and mistrust of pensions, pension providers and advisers are the main barriers to people on low and moderate incomes saving for their retirement. These are far more significant than the potential disincentive that can be created by the interaction between Pension Credit and other income-related benefits and low incomes from private pension provision. While this has featured in national debates on increasing the provision made by people on low to moderate incomes for their retirement, there is little evidence that it is influencing the advice given by financial intermediaries or the decisions made by their clients.

1 Introduction

At the time of writing there is a very active debate about financial provision for retirement. This has been stimulated by a widespread recognition that individuals will need to make their own financial provision, to supplement that provided by the state, if they are to enjoy the standard of living in retirement that most would aspire to have. Recognition of this need extends beyond policy-makers and those whose work involves pensions and retirement planning. Extensive coverage by the media has played an important part in raising public awareness too.

The debate was promoted by the Green Paper *Simplicity, security and choice* which was published in December 2002. This opened consultation about future policy and legislation relating to saving for retirement and has informed the Government's programme of work to help people make informed choices about their retirement.

A proliferation in the range and types of financial products available in the long-term investment market, coupled with a three-tier state system and a set of complex interfaces between state and private provision means that many people need advice to help them make informed choices about the provision they should make. Indeed, the Pensions Commission concluded that:

'The UK has the most complex pension system in the world. This reflects the impact of decisions made over the last few decades, each of which appeared to make sense at the time, but the cumulative effect of which is to create a bewildering complexity in the state system, in the private system and in the interface between them.'

(Pensions Commission 2004)

In the private sector there is a range of pension products with different legal forms and different treatment under tax laws. These include approved personal pensions, group personal pensions, Stakeholder pensions, contracted-out salary-related schemes, contracted-out money purchase schemes, additional voluntary contributions (AVCs) and free-standing additional voluntary contributions (FAVCs). This generates confusion among consumers.

The state system meanwhile comprises a contributory basic State Pension, an additional earnings-related State Pension, and Pension Credit which is income-related. In addition, people on low incomes are eligible for Council Tax Benefit and (if they are tenants) Housing Benefit. Both of these are also income-related. While this package of measures has undoubtedly raised the incomes of the poorest pensioners it has also introduced further complexity in the way that the state and private systems interact.

Individuals must decide whether to contract into the additional State Pension or contract out and make their own provision, either by taking out one of the personal pension options or by joining an occupational pension scheme offered by their employer. Moreover, modest private pension provision can affect an individual's level of entitlement to Pension Credit and other income-related benefits. While the introduction of Pension Credit means that pensioners who can only afford to make modest private pension provision no longer lose benefit pound for pound, there remains a 40p in the pound withdrawal beyond the target income band.

It is not surprising, therefore, to find that over half the population considers that their knowledge of pension issues is 'patchy' or that they know little or nothing about the subject (Pensions Commission 2004). Consequently, most people buy a personal pension through an advised sale involving a financial intermediary, such as an independent financial adviser, or an adviser employed by a bank, building society or insurance company.

This research was commissioned by the Department for Work and Pensions (DWP) with the overall aim of investigating the role played by financial intermediaries in the provision of advice about saving for retirement. Within this, the study sought to increase understanding about how income-related benefits affect advice regarding saving for retirement.

1.1 About the research

The research was undertaken between January and July 2005 and was qualitative in nature. It included interviews with staff of key trade associations, including the Association of British Insurers, the Association of Independent Financial Advisers and the British Bankers' Association. The aim of these interviews was to give an overview of who provides advice on retirement planning and pensions to members of the public. This in turn informed the selection of financial intermediaries for interview. The interviews with trade bodies were supplemented by internet searches for relevant background information, such as the syllabuses of training courses for independent financial advisers (IFAs), and a review of relevant published (and some unpublished) reports.

The core of the research involved depth interviews with 45 financial intermediaries who provide advice to the public at a local level. We adopted a broad definition of 'financial intermediary' to include IFAs, and tied and multi-tied advisers working for banks, building societies and insurance companies.

Of the financial intermediaries who were interviewed, 30 were IFAs, eight were financial advisers who worked for banks or building societies and six were financial advisers employed by insurance companies. They all worked in one of four areas with above-average proportions of people with low-to-middle incomes. These areas included two medium-sized towns (one in the south west and the other in the north west of England) and low-to-middle income areas in two cities (one in the Midlands and the other in Scotland).

The IFAs who were interviewed ranged in size from very small local firms to a large national company. They were identified from local Yellow Pages (or YELL, the on-line version), so mirroring the process someone wanting pensions advice might use if they did not know whom to contact. In total, 142 IFAs were identified in the four areas. Of these, 74 were contacted by telephone and a short screening questionnaire was administered². As a result of the screening, 15 were not recruited for interview as they did not offer financial planning advice for retirement (none were screened out because they did not advise people on low incomes). A further seven refused to participate. Of the remaining 52 IFAs, 30 were interviewed by telephone – the maximum number required.

Alongside the interviews with IFAs, a further 15 interviews were held with financial advisers employed by banks, building societies and insurance companies. These advisers were identified by approaching the headquarters of companies known to sell pensions – the use of call centres (often in India) meant that it was not possible to use the Yellow Pages to systematically identify local pensions advisers. Again, there was a very high level of co-operation – all of the firms that were approached agreed to help with the study.

Each of the interviews with financial intermediaries was undertaken by telephone, and was recorded and transcribed in full. They lasted about half an hour and covered:

- the proportion of their work that involves advising clients on financial provision for retirement;
- the nature of the advice they give in this area;
- whether the nature of the advice differs between different types of client and, if so, how;
- the general process that they go through when providing advice to people on lower-middle incomes;
- details of any groups to whom they would not give advice;

² The screening questionnaire and interview topic guides are provided in Appendix A.

- whether there are any groups for whom they think private pension provision is an unrealistic expectation;
- their views on what constrains the take-up of private pensions by individuals;
- their knowledge of the basic State Pension, State Second Pension, Pension Credit and other income-related benefits such as Council Tax Benefit and Housing Benefit;
- details of the last case where they discussed Pension Credit with a client.

The interviews concluded with the discussion of two scenarios, each involving people on low incomes with little or no private pension provision.

In addition to the 45 interviews held with financial intermediaries, 11 interviews were held with senior staff working at the headquarters of pension providers in order to explore company-wide policy on advising people on low incomes and how this worked in practice. These interviews typically lasted 20-30 minutes and covered similar ground to those of the local advisers. In this case, however, we were asking them for details of the advice given by local advisers in their company. Again the interviews were recorded and transcribed in full.

1.2 This report

This report begins in Chapter 2, with an overview of the marketplace for advice on retirement planning and pensions. It maps out who provides advice in these areas, the number of local advisers involved and an overview of some of the significant changes that have taken place in the past ten years. It also covers the authorisation and training of advisers.

Chapter 3 looks in detail at the nature of one-to-one advice that is given by local financial intermediaries. This includes the extent to which they focus on retirement planning and pensions; the types of people they advise and how they are recruited; and the advice process itself. The last part of the chapter brings together the financial intermediaries' responses to the two scenarios involving people on low incomes with low levels of pension provision.

Chapter 4 covers the one-to-one advice that is given by financial intermediaries on State provision for retirement, including the basic State Pension; additional State Pension; Pension Credit and other income-related benefits. It also addresses their levels of knowledge and training about State provision, and the information sources they use.

Chapter 5 provides an overview of workplace-based advice on saving for retirement.

Finally, Chapter 6 draws together the main conclusions and policy implications of the research.

2 The advice marketplace

Although we do not know the extent to which individuals seek advice about making financial provision for their retirement, it is clear that the great majority of personal pensions are sold through financial intermediaries.

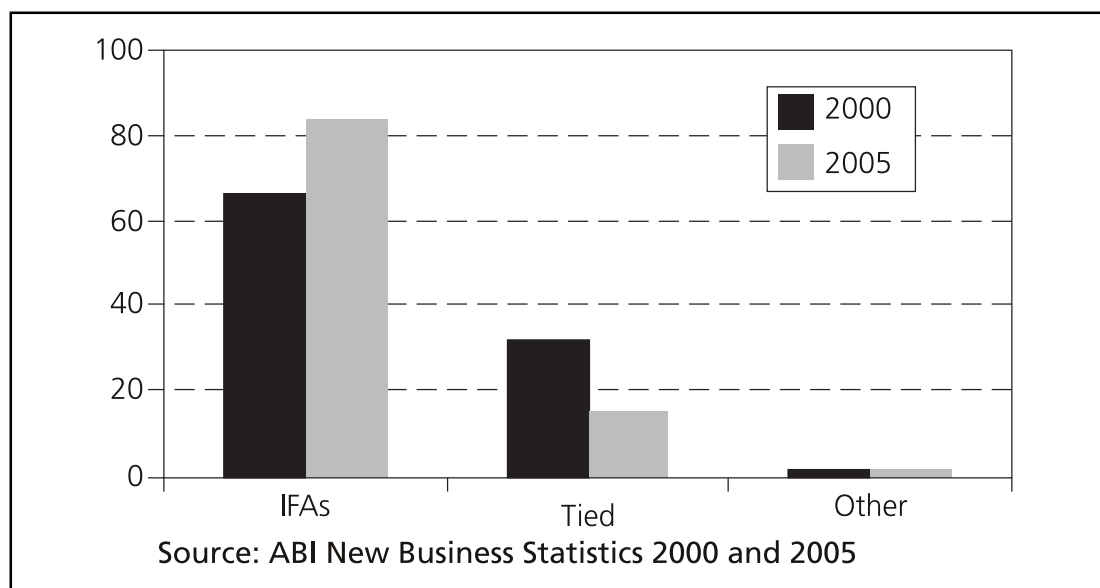
In the first quarter of 2005, only two per cent of personal pensions bought by individuals³ involved a non-advised sale. The great majority (84 per cent) were bought through an independent financial adviser; a far smaller proportion (15 per cent)⁴ through an adviser employed by or tied to a single pension provider⁵ (see Figure 2.1).

There has been a marked shift in the way that pensions are sold. Twenty-five years ago, when most pension providers had their own direct sales force, there were 190,000 registered individuals working within them (Sandler Review, 2002); not all of these employees would have provided advice on a day-to-day basis, however. The number of individuals within direct sales forces who are registered as advisers has fallen dramatically and by 2005, it had dwindled to a few thousand. Analysis of unpublished data provided by the ABI indicates that about half of pension providers now sell only through independent financial advisers (IFAs); the remainder mainly sell through tied advice staff in bank and building society branches. In the five years since the first quarter of 2000, the proportion of personal pensions sold through a financial adviser has increased from 66 per cent to 85 per cent; while the proportion sold through tied advisers has more than halved from 32 per cent to 15 per cent (ABI New Business Statistics 2000, 2005).

³ This includes personal pensions, Stakeholder pensions and free-standing additional voluntary contributions (FSAVCs) paid through regular premiums.

⁴ The numbers do not add up to 100 per cent because of rounding.

⁵ Until 1 December 2004, all advisers were either independent and able to recommend the products of any company, or they were 'tied' to one specified company. At that date, this 'polarisation' of advisers began to be phased out, with a transitional period ending on 1 June 2005. The process of 'depolarisation' introduced a third tier of adviser – the 'multi-tied adviser' – who is authorised to sell the products of a limited number of providers.

Figure 2.1 Distribution channels for the sale of pensions

2.1 Independent financial advisers

The Sandler Review estimated that, in 2002, there were about 26,000 people authorised to give independent financial advice, working in about 11,000 firms. Since then the number of advisers has increased to around 44,000 while the number of firms has remained at around 11,000 as a result of consolidation through mergers and takeovers.

Despite this consolidation, a report in 2003 on the structure of the IFA market in the UK showed that the great majority of IFAs (93 per cent) were very small firms – often employing only one or two advisers. Just under four in ten (37 per cent) were sole traders (Mintel 2003).

Table 2.1 Composition of firms in the IFA sector in the UK

	Number	Percentage
National IFAs	84	1
Large IFAs	225	2
Regional IFAs	515	5
Small IFAs in networks	6,194	56
Small independently regulated IFAs	4,060	37

Source: Mintel 2003.

An important response to the fragmentation of advice-giving through a large number of small firms has been the establishment of IFA networks. There are currently eight networks⁶ ranging in size from a few hundred to several thousand member firms. Individual IFA firms become authorised representatives of these networks and are then subject to the compliance monitoring of the network provider. They are also eligible for extensive help with administration, advice and information and are provided with opportunities for continuous training.

In 2003, Mintel estimated that about six in ten small IFA firms were network members. Since that time, the number is believed to have declined to about half, as a result of firms leaving networks to be independently regulated and joining an emerging sector of 'pseudo-networks' which offer servicing, advice and training at a lower cost⁷. Both networks and pseudo-networks also provide tools that assist IFAs with the advice process (see Chapter 3 for more details).

Some of the larger IFA firms are wholly owned by banking groups. And larger firms often have specialist pensions divisions.

Most of the advice that IFAs give is on a one-to-one basis with individuals, but where their firm sells group personal or group Stakeholder pension schemes, they sometimes make workplace presentations to employees, at the employer's request.

The research included interviews with IFA firms of all sizes. Among the small firms some were members of a network, some were members of a pseudo-network and others were associated with neither. It also included some that made workplace presentations.

2.2 Tied and multi-tied advisers

Tied, and most multi-tied advisers, tend to fall into one of three categories:

- direct sales force staff of a pension provider;
- Bancassurers, that is high street banks who either manufacture their own pension products or acquire a provider through merger or takeover. Sale of pensions is generally undertaken by staff employed in the branches, who are often known as 'personal financial advisers'. Bancassurers may also have a specialist non-branch based staff who provide investment advice and/or specialist units offering investment advice to their private banking customers;

⁶ Berkeley Independent Advisers Limited; Berkeley Wodehouse Associates Limited; The Burns Anderson Independent Networks Plc; Positive Solutions (Financial Services) Limited; Sage Financial Services Ltd; Sesame Services Ltd; Tenet Limited and The Whitechurch Network Ltd.

⁷ Three of the larger ones being Sesame Direct, Bankhall and Simply Biz.

- tied (or multi-tied) agents who are legally distinct from the pension provider but have an arrangement to sell its products. They include building societies and some banks that do not have a pension product of their own, as well as professionals (such as accountants) who sell pensions as an additional service to clients and others who are, effectively, self-employed salespeople.

All three types of adviser were interviewed during the course of the study, and they included both branch-based advisers and specialist advisers working for bancassurers. They also included a bancassurer that had opted for a multi-tie arrangement but was still predominantly selling its own pension product.

In addition, many pension providers have dedicated teams of staff who make presentations in the workplace. While some of these presenters are authorised financial advisers, others are not. In any case, the presentations only provide generic information, not advice. Interviews were held with several staff who were involved in delivering information and advice in the workplace (see Chapter 5 for details).

2.3 Authorisation of advisers

To give advice on investments, including pensions, a financial intermediary must be authorised by the Financial Services Authority (FSA) – or be the appointed representative of another firm that has got FSA authorisation.

To become authorised, a financial intermediary needs to meet certain ‘threshold’ conditions which include adequacy of financial resources, and suitability – that is, they meet criteria relating to honesty, competence and financial soundness. A small IFA firm, for example, would generally be expected to have at least one member of its governing body who has a minimum of three years experience in the financial services industry, at least one of which has been spent in the independent sector. A financial intermediary who gives advice on pensions would also be expected to have an ‘appropriate qualification’, such as the Financial Planning Certificate (FPC) (see below).

In the case of appointed representatives (which would include members of IFA networks) it is the responsibility of the authorised firm to ensure that representatives are fit and proper to deal with clients on their behalf.

A firm must also have appropriate arrangements to ensure the continuing competence of their employees.

Once authorised, a financial intermediary must comply with the high level standards set down in the FSA Handbook and also with the rules contained in its Conduct of Business sourcebook. These rules cover:

- providing customers with details of the terms and conditions under which business will be done with them;
- taking steps to ensure that adequate information is collected about clients’ personal and financial circumstances;

- ensuring that any investment that is recommended is suitable for a client's requirements and to their circumstances;
- ensuring that clients understand the nature of the risk associated with any investments that are recommended;
- disclosing the identity of the firm and the employee or representative of the firm;
- disclosing the charges a client will incur and the remuneration that the adviser will receive before conducting any business; and
- providing a document setting out the key features of an investment before they complete an application form.

2.4 Training of advisers

All financial intermediaries who offer advice on pensions and other investments must have an 'appropriate' qualification. The Financial Services Skills Council maintains a list of the qualifications that are considered appropriate.

Most of the financial intermediaries we interviewed had the FPC, which was issued by the Chartered Insurance Institute until the end of 2004. This comprised three modules: FP1 covered financial services and their regulation; FP2 protection, savings and investment products; and FP3 identifying and satisfying clients needs. State provision was covered in FP2 and included taking State provision into account when assessing clients' needs, as well as an understanding of the additional State Pension. It did not explicitly cover either Pension Credit or other income-related benefits.

In 2005 the FPC was replaced by the Certificate in Financial Planning. This includes a more extensive module covering 'the main state pensions benefits to which individuals may be entitled in retirement and the impact they may have on retirement planning'. Unlike the FPC, it includes Pension Credit (see Figure 2.2).

Figure 2.2 Certificate in Financial Planning – State pension coverage

Module 3. The main state pension benefits to which individuals may be entitled in retirement and the impact they may have on retirement planning

3.1 Basic state pension:

- 3.1.1 payment age;
- 3.1.2 entitlement;
- 3.1.3 pension amount and increases;
- 3.1.4 taxation;

Continued

Figure 2.2 Continued

3.1.5 national insurance contribution record;

3.1.6 basic state pension widow(er)'s death and bereavement benefits;

3.1.7 DWP forecast service.

3.2 Graduated pensions, State Earnings Related Pension Scheme (SERPS), State Second Pension (S2P):

3.2.1 calculation of benefits, including widow(er)'s benefits under SERPS;

3.2.2 stages 1 and 2 of S2P;

3.2.3 contracting out of S2P generally.

3.3 Pension credit:

3.3.1 structure;

3.3.2 impact of claimants' capital position;

3.3.3 effects on pension planning.

A small number of financial intermediaries working in banks had the Certificate for Financial Advisers (CeFA), issued by the Institute for Financial Advisers, which is part of the Chartered Institute of Banking. This is of an equivalent standard to the FPC and comprises four modules. Module 1 covers UK financial regulation, module 2 investments and risks, and module 4 is an assessment of investment advice knowledge. Retirement planning is covered in module 3 and, like the Certificate in Financial Planning, it includes a section on the 'main state pension benefits to which individuals may be entitled in retirement and the impact they may have on retirement planning'. It covers the basic State Pension, additional State Pension and Pension Credit and does so to a similar level of detail as the new Certificate in Financial Planning.

In addition to these basic-level qualifications, there is a range of more advanced training for financial intermediaries. Only a small number of the financial intermediaries we interviewed said they held any of these qualifications.

Having qualified, all financial advisers are required by the FSA to ensure that their skills are kept up-to-date. This normally involves a programme of continuous training and testing. For a tied adviser, training is provided by the company whose products they sell – which in many cases will be their employer. On the whole, IFAs get continuous training through their network or a pseudo-network (if they are a member of one), or other training provider if they are not. In all cases, testing is undertaken by the training provider.

2.5 The impact of recent changes in the marketplace on advice for people on lower incomes

The marketplace for advice on saving for retirement has undergone some important changes in recent years. Regulation of the advice process has been strengthened appreciably, as a result of the training and competence regime of the FSA and its predecessors. This has undoubtedly increased the quality and standardisation of advice given, as a number of the financial intermediaries we interviewed testified. They considered this a welcome move.

At the same time, the strengthened regime has been accompanied by the decline of direct sales forces of companies – including the ‘home service’ companies that traditionally met the needs of people on lower incomes. Direct sales force staff need to be fully authorised advisers and the cost of training, compliance and enhanced salaries mean that it has become uneconomic to sell products in this way, especially to people with only small sums to invest.

Consequently, as we have noted above, about half of pension providers now only sell their products through IFAs and the number of authorised IFAs has increased markedly. Despite a recent period of consolidation, the provision of independent financial advice remains fragmented with a large proportion of very small firms. As we discuss in the next chapter, people on lower incomes tend to opt to pay for any products they buy on commission. But according to many of the IFAs we interviewed, the small sums of money they can afford to invest combined with the low levels of commission on Stakeholder pensions, mean that people on low incomes are regarded by IFAs as an uneconomic group to serve.

The development of bancassurance has, to an extent, widened access to financial advice for people on lower incomes through branch-based personal financial advisers. But this has not been as great as expected and, like IFAs, most of their customers are on middle-to-high incomes.

Taken together this indicates that, while the quality of advice on saving for retirement has improved, the availability of advice for people on lower incomes has declined. In April 2005, a new basic advice regime was introduced for Stakeholder pensions, which has a less stringent compliance regime. It is too early to assess what impact this will have on the availability of advice to people on lower incomes.

3 Retirement advice to individuals through financial intermediaries

Previous research indicates that consumers lack confidence when it comes to making decisions about long-term saving, including saving for retirement. In one survey, around three in ten people (28 per cent) who had a personal pension felt that it was not a straightforward product to take out. A similar proportion felt the same about investments (Collard 2001). Research undertaken for the Pensions Commission showed that just 12 per cent of consumers considered they had a good knowledge of pension issues; a further 32 per cent felt they had a reasonable, basic, knowledge. On the other hand, 31 per cent considered their knowledge to be patchy and 22 per cent said that they knew little or nothing about pension issues (Pensions Commission, 2004).

In the light of this, it is perhaps not surprising that personal pensions are generally sold through an advised sales process, mainly through IFAs. On the whole, though, advice to individuals about pensions and retirement planning does not seem to form a large part of financial intermediaries' work. And only a handful of financial intermediaries deal with lower income clients in any number. The exception to this is financial intermediaries who provide information and advice through the workplace, and this is explored in detail in Chapter 5.

3.1 Advice on retirement

Apart from one IFA who worked as part of a specialist pensions division, all the financial intermediaries who were interviewed provided advice to individuals across the range of Financial Services Authority (FSA)-regulated activities⁸.

⁸ These include investments, mortgages and general insurance.

Planning for retirement was the principal activity of only a minority of these financial intermediaries, and they tended to be IFAs. For them, half or more of their work comprised planning for retirement. Among the remainder, most said they spent between 20 and 40 per cent of their time on retirement planning.

A few financial intermediaries mentioned that advice specifically about pensions formed a very small part of their overall workload – ten per cent at most. This was generally because the low level of charges on pensions heralded by the introduction of Stakeholder pensions in 2001 meant that it was difficult to recoup the costs of their time. Instead, advice on saving and investing generally accounted for a much higher proportion of their time. For the same reason, there is now very little advertising or promotion of pension products by providers.

3.2 What types of people do financial intermediaries give advice to?

Almost all the financial intermediaries who were interviewed said they would provide advice to anyone who sought it, regardless of their income. The reality, however, was rather different.

In fact, most of them only gave advice to a small proportion of people on low incomes, if any at all. There were a number of inter-related reasons for this. First, their main target client group was generally people with annual incomes of £15,000-£20,000 and above. Several talked about their clients mostly being 'high net worth' individuals. People on lower incomes were not regarded as a profitable section of the population and so financial intermediaries simply did not market their services to them and, as a result, were not contacted by them. This accords with research commissioned by the Financial Services Consumer Panel, which found that consumers who had recently sought advice tended to be fairly affluent, with around half earning more than £25,000 a year (Collard 2001). Two of the financial intermediaries specialised in providing advice to people on higher incomes – one was an IFA who provided specialist advice for the medical profession; the other was a financial adviser who worked within the wealth management division of a bank.

Several financial intermediaries also mentioned the *de facto* exclusion of low-income consumers from their client base because they could not afford to pay fees for advice. Similarly, if consumers could not afford to save for retirement, they tended not to seek advice.

There were, however, a few financial intermediaries who had a relatively high proportion of low-income clients. This generally meant that 40-50 per cent of their clients were on low incomes; their definitions of low income ranged from under £15,000 a year to under £10,000 a year. In practice, few of these lower income customers were given advice about saving for retirement.

Research carried out by NOP for IFA Promotion found that people on higher incomes (£25,000 or more) were more likely to use an IFA, while those on lower incomes (up to £13,499) tended to turn to banks, building societies or insurance companies for advice (www.unbiased.co.uk). As we go on to discuss below, banks and building societies may be more likely to provide advice to people on lower incomes because of the way clients are recruited.

3.3 How are clients recruited?

There was broad agreement among the financial intermediaries that very few consumers actively seek advice specifically about pension provision or retirement planning. Instead, these issues tend to be raised by the financial intermediary in the course of a general financial review. The exceptions to this were older people on higher incomes, who might seek advice in relation to inheritance tax planning; and people wanting to consolidate several pensions.

Existing customers were an important source of work for all types of financial intermediaries. For branch-based advisers, they were usually the main source of work, as front-line branch staff identified potential clients from the customers they dealt with, and then referred them to the advisers. Research carried out for the Financial Services Consumer Panel found that most banks offered a financial review service to non-customers as well as customers. Many also provided more tailored services to particular groups, such as wealthy customers or those perceived to have debt problems (Financial Services Consumer Panel 2004).

Earlier research has highlighted high levels of repeat use of advisers among financial consumers, particularly IFAs and salespeople in the home (Collard 2001). These findings seem to be borne out by this study. Much of the work of IFAs took the form of ongoing relationships with clients, who were generally recruited either through word-of-mouth or marketing activities. Similarly, advisers working as part of the direct sales force for one bancassurer maintained close contact with their existing customers, who tended to contact them directly when they wanted advice. These advisers received referrals from a central call centre as well.

Advisers working for one insurance company each covered a particular region and received client leads from company agents who were based in local offices. The adviser we interviewed, for example, had potential clients referred to him by four local offices in his region. Some insurance companies and bancassurers also carried out direct marketing to attract new business.

3.4 Factors influencing take-up of private pensions

Financial intermediaries and senior staff based at the headquarters of pension providers were asked what they thought were the main triggers and barriers to people making private pension provision.

3.4.1 Main triggers for making private pension provision

Four main triggers were identified, the most important of which was the level of retirement provision that people could expect from the State. Financial intermediaries claimed that people become motivated to make their own provision when they realise that this would be inadequate for the lifestyle they desire. As we go on to discuss, some financial intermediaries used this as a 'spur' to make their clients seriously consider the need to plan for their retirement. This has been fuelled by the second trigger – the recent media coverage about pensions, in particular following the first report of the Pensions Commission which gave rise to stories about a looming 'pensions crisis'.

Closely linked to this was the third trigger – age. Once people reached their mid-30s or mid-40s, they started to think about taking some action in relation to saving for their retirement. This was often because they had more disposable income.

The final trigger was talking to friends, relatives and colleagues about retirement. This took a variety of forms, including parents advising their adult children to take out a pension when they first started work, and seeing friends, relatives or colleagues struggling to manage in retirement.

However, there was an equally strong feeling among headquarters staff and financial intermediaries that there were no effective triggers to make people think about private pension provision. As a result, pensions very much have to be sold to people.

3.4.2 Main barriers to making private pension provision

Concern about the lack of consumer confidence in long-term savings, including pensions, has resulted in two Government inquiries (Treasury Committee 2004a and 2004b). As far as financial intermediaries and senior headquarters staff were concerned, loss of trust among the general public - in pensions, pension providers and advisers - was the biggest barrier to the take-up of private pensions. This has led to inertia among consumers, driven by adverse media coverage or 'horror stories' about the falling stock market, the closure of defined benefit pension schemes and pension mis-selling. In their view, the problem was exacerbated by the fact that members of the public tended to generalise from specific news stories about pensions to pension provision as a whole. In the light of this, financial intermediaries felt strongly that more should be done to promote pensions in a positive way. This included increasing public awareness about the need to save through information and education.

Affordability ran a close second as a barrier. Financial intermediaries felt that many people, and low earners in particular, simply could not afford to save in a private pension. They had more pressing demands on their disposable income and so pensions were often not a priority. A small number of financial intermediaries also felt that people could be put off by the amount of money they would need to save in order to secure a decent income in retirement.

'...the vast majority are going to pay what they can afford and to be perfectly blunt, you know, a lot of the time their perception of what is affordable and what is needed is somewhat different than ours would be as advisers.'

(IFA)

The third main barrier identified by the financial intermediaries was a widespread lack of understanding among the general public about pensions and how they work. Many of them felt that people are generally ill-informed about pensions and several mentioned the complexity of pensions as a contributory factor in this. Hardly any said that eligibility for Pension Credit or income related benefits acted as a deterrent.

3.5 The advice process

The advice process has three main components: an initial discussion between the adviser and client (usually free-of-charge), in which the terms of business are outlined, along with the type of service the client can expect, the payment options and the likely cost. The second element is the collection of personal and financial information about the client, commonly called a fact find. Depending on the level of advice that is provided, at the third stage the adviser may also make recommendations to the client about the action they should take⁹. According to the financial intermediaries who were interviewed, the whole process usually took place over two or three meetings. Advice was invariably provided face-to-face.

The FSA Conduct of Business sourcebook sets out high-level rules about the information and advice that regulated firms (i.e. those selling FSA-regulated products and services) must provide to clients. In order to comply with these regulations, the advice process has become increasingly standardized, a fact commented on in some of the interviews with headquarters staff. To this end, computer software has been developed which provides tools for advisers such as electronic fact finds and product databases.

3.5.1 Disclosure of information

Since depolarisation came into effect on 1 June 2005, firms have to provide information about the type of service they offer and the cost of those services when they first come into contact with clients, in the form of Keyfacts documents (see

⁹ Advisers may offer an 'execution-only' service, in which the adviser narrows down the selection of products that they will provide details on, but does not provide advice or any recommendations – it is up to the client to make the choice. Advisers may also offer basic advice on a limited range of Stakeholder products. In this instance, the adviser will not conduct a full assessment of the client's needs. Nor will they offer advice on whether a non-Stakeholder product may be more suitable.

www.fsa.gov.uk/pubs/other/keyfacts1.pdf for an example document which has been produced by the FSA). These documents are intended to give consumers clearer information early on in the sales process about the type of advice they can expect to receive and the cost of that advice.

The Keyfacts document about services (also known as the initial disclosure document) is required for 'packaged' financial products, including personal pensions¹⁰. This document gives details about the range of products that the firm offers (whole of market, multi-tied or tied) and the level of service it provides (advice and recommendation, no advice or basic advice). Firms may also choose to supplement this with a letter spelling out the terms of business in more detail.

The Keyfacts document about the cost of services (also known as the menu or the fees and commission statement) sets out the payment options that are available and the typical commission and/or fees charged by the firm. If the firm offers payment (or part-payment) through commission (which most do), it must include the market average commission figure, which is calculated and updated by the FSA. The FSA has developed an online menu commission calculator to help firms identify their own maximum commission levels and the corresponding market average. The menu has been criticized, however, for not giving consumers the split of costs between the initial sale and ongoing advice (ABI 2005). Under the new rules, firms that want to call themselves 'independent' must offer clients the right to pay fees for advice, as well as offering advice on products from the whole market.

Many of the IFAs who were interviewed mentioned that their first meeting with clients was free of charge. In a few cases, this was time-limited to an hour. Although almost all the interviews with financial intermediaries took place before 1 June 2005 when the new rules came into effect, on the whole the IFAs we interviewed already offered their clients the choice of paying by fee or commission. In practice, they were mainly remunerated on a commission basis, although several anticipated an increase in the proportion of fee-based cases, as a result of depolarisation. A very small number worked mainly on a fee-charging basis; these advisers tended to have relatively affluent clients.

None of the banks, building societies or insurance companies whose advisers we interviewed charged a fee for advice. Instead, the advice was paid for indirectly through commission or annual management charges.

There has been some concern within the industry that '*commission inevitably gives rise to a conflict of interest and creates the potential for poor advice and inappropriate sales*' (ABI 2005). Research carried out for the ABI found some limited

¹⁰ Other packaged products include some types of life insurance, unit trusts, OEICs, interests in investment trust savings schemes and some other investments based on stocks and shares (FSA, June 2005).

commission-related bias towards particular companies and product types, but no evidence that commission was inducing financial intermediaries to sell products inappropriately (ibid).

3.5.2 Information-gathering

If the client decides to go ahead, in the second stage of the advice process the adviser gathers information about their personal circumstances, their finances and their needs and objectives. This is commonly known as 'fact finding' and the information is collected in a document called a 'fact find'. The fact find is an essential document – it formally records the advice provided and any resulting transaction. If the client has any queries or complaints about the advice they received or any financial products they subsequently took out, the fact find is the main source of information of any review.

Most of the financial intermediaries who were interviewed used electronic rather than paper-based fact finds. In the case of tied advisers, the software for this was provided by the bank, building society or insurance company they worked for. Independent financial advisers either bought this type of software off-the-shelf or obtained it through the network to which they belonged.

In the course of the fact find, the FSA Conduct of Business rules require firms '*to obtain sufficient information about a customer's personal and financial situation before giving investment advice or exercising discretion*'. The fact find should, according to these rules, provide an analysis of the client's personal and financial circumstances, which leads to the identification of his/her needs and priorities. Alongside an assessment of the client's attitude to risk, this analysis should be used to recommend a suitable and affordable investment, which is communicated through a 'suitability letter'. This letter should demonstrate that the advice was suitable and affordable at the time it was given.

In terms of giving advice about pensions and retirement planning, the financial intermediaries' main aim was generally to find out about clients' aspirations for their retirement, including the income and lifestyle they desired; what financial provision they already had; and the level of income they could expect from this provision. In most cases, it was then a matter of 'plugging the gap' to make up the almost inevitable shortfall between people's expectations and the level of income they could realistically expect in retirement, based on their current level of savings and investment. As we go on to discuss in the next chapter, financial intermediaries sometimes used the current level of basic State Pension as a tactic to make people think seriously and realistically about planning for retirement.

The amount of money that people will need to save for retirement depends on the level of income they would like and the age at which they start making contributions. Online pensions calculators have been developed, for example by the ABI and FSA, to help people work out how much they need to save. There are also rules about the maximum amount that can be paid into occupational and personal pensions every

year (these will change from April 2006). Although not asked directly, a small number of financial intermediaries mentioned the level of contributions that they considered would provide an adequate income in retirement. This ranged from six per cent of income up to 15-20 per cent of income. Only one of these financial intermediaries also talked about the timescale over which people needed to save for retirement – 40 years, in his view.

3.5.3 Advice and recommendations

At the third stage of the advice process, the adviser discusses with the client any action that they feel the client should take, based on analysis of the fact find and the client's needs. If the adviser recommends that the client takes out a financial product, they have to explain why the product is appropriate and give this explanation to the client in writing, in what is often called a 'suitability' or 'reasons why' letter. According to FSA regulations, independent advisers should include in this letter the reasons why a particular product provider has been recommended, e.g. products features that are not available elsewhere, price, service levels, performance track record, reputation.

For some savings and investment products¹¹, the adviser is also required to provide a Key Features document. This gives important details such as the aims and benefits of the product; the level of risk; and the commission and other charges that apply. Every product provider uses a similar format for their Key Features documents; the contents are set by the FSA for each type of product.

Concerns have been raised about the provision of this information to consumers. Recent research found that advisers did not always explain their recommendations to the client, nor did they always give Key Features documents or equivalent information to the client (Financial Services Consumer Panel, 2004).

According to the financial intermediaries who were interviewed, the advice they gave in relation to saving for retirement largely depended on the age of the client and the amount they could afford to save. As mentioned previously, computer software has been developed for use in the provision of regulated financial advice, and programmes such as Synaptic use databases to make suggestions about suitable products, based on the information collected in the fact find. Although only one financial intermediary mentioned using this type of software, it is highly likely that more of them did so.

Despite the perceived loss of trust in the pensions industry, personal pensions remained the main vehicle that financial intermediaries said they recommended to clients who wanted to save for retirement. Almost all the financial intermediaries mentioned Stakeholder pensions to their clients, which were specifically designed to

¹¹ Personal pensions, Individual Savings Accounts (ISAs), unit trusts and OEICs, savings plans and investment plans, investment-type life assurance.

encourage saving for retirement by offering better value for money and more flexibility than traditional personal pension plans¹². The annual management charge for Stakeholder pension schemes is currently capped at 1.5 per cent of the pension fund for the first ten years, and one per cent thereafter. Several financial intermediaries, including some enthusiastic supporters of Stakeholder pensions, commented that the level of the charge cap has resulted in negligible profit margins on these pensions. Consequently, there was little incentive for pension providers to market or promote them.

In order to improve access to Stakeholder pensions and other similar products, the FSA has developed a basic advice regime. This offers consumers advice on a limited range of products, and does not require a full assessment of their needs. Under this regime, advisers cannot offer advice on whether a non-Stakeholder product might be more suitable. One bank that was included in the research only provided basic advice for Stakeholder pension schemes.

A few financial intermediaries promoted 'Stakeholder-friendly' personal pension schemes which share many of the features of Stakeholder pensions, but may have higher charges. Self-invested pension plans were used by a minority of advisers (mostly IFAs), notably in relation to higher-income clients.

Alongside personal pensions, many of the financial intermediaries said they also advised on other savings and investments for retirement, typically Individual Savings Account (ISAs). The exceptions to this were two branch-based advisers from different banks, who always favoured personal pensions over ISAs because of the greater tax advantages they felt they offered¹³. Indeed, this was the corporate policy of one of the banks. Other investment vehicles were mentioned by only a small number of advisers, and included investing in buy-to-let property, income bonds and investment bonds.

Finally, a small number of financial intermediaries mentioned that they invariably advised clients to join an occupational pension schemes if this option was available. In practice, it is likely that most would offer this advice, as we discuss in more detail later in the chapter.

3.6 Retirement advice to people on low incomes

As we have already noted, low-income consumers generally did not form a large part of the client base of the financial intermediaries we interviewed. Moreover, there was hardly any overlap between financial intermediaries who undertook a relatively large amount of retirement planning work and those who counted a

¹² Regulations require advisers to recommend a Stakeholder pension to customers or show why they haven't if not an appropriate product for them.

¹³ This is likely to change in April 2006 when tax simplification comes into force.

significant proportion of low-income customers among their clients. As a result, when asked about the type of advice they would give to low-income clients about planning for retirement, most financial intermediaries had little or no experience to draw on. In any case, there seemed to be little difference in the advice they would offer, regardless of their experience with low-income consumers or lack of it.

The advice **process**, as outlined above, did not differ by income. The only part that they would tailor to individual circumstances was the advice that they gave. Indeed, there was general consensus that the advice they gave and the recommendations they made would largely be shaped by the client's circumstances and the amount they could afford to save towards their retirement.

Linked to this, a small number of financial intermediaries mentioned that the client's own financial priorities would help determine the advice they gave. For low-income families, adequate insurance to provide financial security for children and/or partners might be a much higher priority than a pension. Similarly, low-income clients might be better advised to build up a financial cushion of cash savings before considering long-term saving for retirement.

The number of years until retirement and desired income in retirement were mentioned by a small number of financial intermediaries as other factors that might impact on the advice they gave. Pension Credit and income-related benefits were rarely mentioned in this context.

3.6.1 What products would financial intermediaries recommend?

Given that financial intermediaries viewed affordability as a key driver of the advice they would provide to people on lower incomes (and to clients generally), it is not surprising that Stakeholder pensions were the product most often mentioned. The main advantages of Stakeholder pensions identified by some of the financial intermediaries were that they offer value for money for people on lower incomes because of the low charges; provide greater flexibility than other pension plans (people can stop and start their contributions, for example); and because contributions can be as little as £20 per month, they are affordable.

Many of the financial intermediaries, however, questioned whether someone on a low income should take out a private pension plan at all. Here, definitions of low income mostly ranged from £10,000 or less a year to £15,000 or less a year. Some simply thought that they could not afford to save in this way and there would be other priorities such as life insurance or liquid savings. A few were concerned that someone on a low income, who could not afford much by way of pension contributions, might end up with a small private pension fund which would affect the assistance they could receive from the Government (see Section 4.3.1).

A few financial intermediaries considered that an ISA might be a more appropriate savings vehicle than a personal pension for someone on a low income. There were various reasons for this, such as affordability and the fact that younger people, in particular, might need to access their savings before retirement age.

None of the financial intermediaries who suggested ISAs as an alternative to a pension mentioned that **any** savings amounting to more than £6,000 (not just pension savings) could impact on eligibility for the guarantee element of Pension Credit. However, they may have anticipated that someone on a low income was unlikely to save over £6,000. State provision is discussed in greater detail in the next chapter.

3.6.2 Two scenarios to illustrate the advice given to people on low incomes

In order to elicit further information, the financial intermediaries were asked to describe the advice they would give on planning for retirement in relation to two different scenarios, both involving people on low incomes. Again, it is important to remember that the financial intermediaries we interviewed did not generally deal with low income clients, and so would have been answering hypothetically rather than from their own experience.

Scenario 1

- Dave is aged 35, married with three children and owns his home with a mortgage.
- He has worked full-time since he was 20 and now earns £14,000 a year.
- He has five years contributions to a defined contribution personal pension.
- He contributes £50 per month to this pension scheme.

The most common response to the first scenario was that Dave should look to increase his pension contributions – if he could afford to. There was some doubt, however, about whether there was any scope for further saving within his limited budget. If he did have sufficient disposable income, he could consider increasing the amount he put into his personal pension. Alternatively, several financial intermediaries suggested that he save additional money into an ISA – he could still access his savings if he needed to and, if he managed to save until he was 65, he would have a tax-free lump sum of money. A handful of financial intermediaries suggested saving into a Stakeholder pension alongside his existing personal pension, to boost his income in retirement.

A few IFAs questioned whether saving any money in a personal pension was appropriate or worthwhile in this situation, as Dave risked losing out on State benefits in retirement – although none of them mentioned Pension Credit specifically. All of them said they would check his entitlement to State retirement provision. Two would consider diverting Dave's pension contributions into an ISA and then advise him to contract back in to the additional State Pension. Another (also an IFA) had recommended this to one of his own clients who was in a similar situation.

A small number of financial intermediaries said they would check whether an alternative pension scheme might be better for Dave, in terms of lower charges and/or improved benefits. In some cases, this meant checking whether Dave had access to a pension scheme through his workplace, and whether his employer made any contributions. In others, it meant shopping around for a private pension that offered better value-for-money.

For a similar number of financial intermediaries, life insurance and income protection insurance were considered to be a far higher priority than a personal pension. In their view, Dave's first priority should be to make sure that his family was adequately provided for in the event of his death (or the death of his wife), or if he was unable to work for any length of time.

Scenario 2

- Margaret is a 50 year old divorcee with no dependents. She owns her home outright.
- She has worked full-time since the age of 20 and currently earns £20,000 a year.
- She has no private pension provision at all, and no savings. Nor does she have any entitlement to her ex-husband's pension or savings.
- Her employer offers a pension scheme but she is currently not a member.

The overall view among the financial intermediaries was that Margaret had a lot of time to make up if she wanted a decent income in retirement. There was a general consensus that she should strongly consider joining the pension scheme run by her employer, particularly if the employer made contributions or if it was a final salary scheme. Not only did the charges tend to be lower for workplace-based pension schemes, they usually provided better levels of benefits as well.

Most of the financial intermediaries would also advise Margaret to top-up her occupational pension scheme, either by making additional voluntary contributions over and above the required amount or by taking out a separate pension plan such as a Stakeholder pension. Other suggestions included saving money in an ISA or equity release, each of which was suggested by a minority of financial intermediaries.

Given Margaret's age, it is perhaps surprising that only a few financial intermediaries mentioned State retirement provision; none of them, however, mentioned Pension Credit. Most of these talked generally about checking her entitlement to the basic State Pension. Two financial intermediaries said they would check Margaret's National Insurance contribution record, and advise her to maximise her contributions if she had not already done so. Finally, one financial intermediary would explore the possibility of contracting back in to the additional State Pension – although he admitted that he would have to read up on the criteria for this.

4 Advice to individuals on State provision for retirement

There are three key components of State provision for retirement: the basic State Pension; the additional (or Second) State Pension (and its predecessor State Earnings- Related Pension Scheme (SERPS)) and Pension Credit. In addition, low-income pensioners, like others on low incomes, may qualify for a range of other income-related benefits.

As we have seen, the Financial Service Authority (FSA) Conduct of Business rules require financial intermediaries to obtain sufficient information about a customer's personal and financial situation before giving investment advice, but leave it to firms to design and use a process that is appropriate to the market place in which they transact business. Intermediaries must, however, be able to demonstrate that the advice given was suitable and affordable at the time it was given. This leaves open the extent to which State provision for retirement should be taken into account when advising clients on retirement planning. Consequently, this research has found wide variations in the practice of financial intermediaries, largely resulting from a widespread view that future State provision is complex and uncertain for all but those approaching retirement.

4.1 Basic State Pension

The basic State Pension is currently paid to women aged 60 or over and men aged 65 or over.¹⁴ It is not affected by income received from other sources but **is** related to the level of National Insurance contributions an individual has made. In order to qualify, one has to have paid 52 contributions on earnings in at least one tax year since April

¹⁴ State Pension ages will be equalised at 65 years from April 2020. This increase in women's State Pension age will be phased in over a ten-year period from 2010 to 2020.

1975 or at least 50 contributions at any time before that date. To qualify for the maximum, basic pension contributions need to have been paid (or credited) for nine tenths of the years of an individual's working life – normally from age 16. To get the minimum basic State Pension payable (25 per cent) an individual normally needs ten or 11 qualifying years. Those who are married may qualify for a pension based on a spouse's (or late spouse's) contribution record. This is paid at a lower rate. In April 2005, the Basic State Pension was £82.05, or £49.15 if it was based on a spouse's National Insurance contributions. Additional amounts are paid for dependents.

On the whole, financial intermediaries felt they were reasonably well-informed about the basic State Pension. It had been covered in their basic training and they knew they could check the Department for Work and Pensions (DWP) website for details if needed.

4.1.1 Advice given on the basic State Pension

Intermediaries divided about evenly into two groups with respect to the advice they gave on the basic State Pension. Some discussed possible entitlement in detail and others discussed the basic pension in general terms only.

Just about all of the financial intermediaries who discussed the basic State Pension **in detail** with their clients used personal State Pension forecasts from DWP.¹⁵ These forecasts tell applicants the amount of basic State Pension and (if applicable) additional State Pension they have accrued already. They also show how much they can expect at State Pension age, based on what they might accrue before retirement. All amounts are given at current prices. They also indicate whether the applicant can do anything to improve their basic State Pension and forecast any entitlement to Graduated Retirement Benefit¹⁶.

Some of these financial intermediaries filled in the forecast application form with their clients, others advised their clients to apply themselves. In some cases a forecast was obtained for every client enquiring about retirement provision, but a minority of intermediaries indicated that they only did so for older clients. This varied from clients aged over 40 to those who were within five years of retirement.

'...I suppose we'll make an assumption that they will have a full State pension if they're younger, because it's very difficult to do anything other than that. If you're coming up to retirement then, potentially, we're able to clarify exactly what level of pension they're actually going to get from the State.'

(IFA)

¹⁵ Forecasts are available in paper format or online from the Real Time Pension Forecasting e-service. Financial intermediaries did not comment on the method they used.

¹⁶ The Graduated Retirement Benefit scheme was run from April 1961 to April 1975 – it provided earnings related pension benefits to individuals through the National Insurance scheme.

'Well, they've got two routes they can go down. They can actually get a BR19 or we look within our fact find system to provide a broad view of what pension benefits would be available. I would suggest a BR19 would be appropriate for somebody, not getting on in years, but not for 20 to 25 year olds, but certainly for 40 to 45 year olds get the BR19 and analyse exactly what benefits might be available.'

(Building Society adviser)

Most of them used the forecast as a standalone piece of information. One IFA, however, said he built the information into a computerised system his firm used, to generate illustrations of retirement income with different levels of investment in a personal pension.

Although the forecast does indicate whether the applicant can do anything to increase their basic State Pension, few of the financial intermediaries we interviewed specifically mentioned that they would check a client's National Insurance contribution record to see whether they should make additional National Insurance contributions.

Turning now to the financial intermediaries who said that they only discussed the basic State Pension **in general terms** with their clients if at all, most treated it as a bonus. They stressed its inadequacy and the need for people to make additional provision themselves.

'The bulk of the advice is going to come back to personal pension planning and, to be honest, we just disregard the State provision in a lot of cases, because unless they're really on low incomes, they're going to need more than the State can provide.'

(IFA)

Some, however, went further and used the level of the basic State Pension as a tactic to spur people into making provision.

'I tell people, if they're relying on the State pension... they're going to live in pretty well abject poverty.'

(IFA)

'[We tell them] that provides a minimal amount and the set amount will become less and less in relation to earnings. You've got to provide for yourself.'

(IFA)

On the whole, IFAs were more likely to get a forecast and discuss the basic State Pension in detail than were the financial intermediaries employed by banks, building societies or insurers, although the differences were not great.

4.2 Additional State Pension

Since 1978, there has been a mandatory second-tier pension. This requires all employees (but not the self-employed) to either contribute to the additional State Pension or to make equivalent private savings in a contracted-out pension scheme.

Up to April 2002, the additional State Pension was called the State Earnings-Related Pension Scheme (SERPS). SERPS was based on an individual's record of National Insurance contributions and their level of earnings as an employee.

On 6 April 2002, the State Second Pension reformed SERPS to provide a more generous additional State Pension for low and moderate earners, and to extend access to include certain carers and people with long-term illness or disability. (Any SERPS entitlement already built up is protected both for those who have already retired and for those who have not yet reached State Pension age.)

Employees with annual earnings above a certain amount (£4,264 in 2005/06) can choose to leave the additional State Pension and join a private pension scheme instead. This is known as 'contracting out'.

Most of the financial intermediaries we interviewed commented on the complexity of the additional State Pension. They felt that their clients were confused by it and admitted to finding it complicated to understand themselves. Although the additional State Pension had often been covered in their initial training, this generally related to SERPS because they had trained prior to 2002. They felt much less well-informed about the more recent changes and this applied to financial intermediaries regardless of whether they were IFAs or tied advisers. Others felt unable to offer any view at all, saying that their level of knowledge was too low.

4.2.1 Advice given on the additional State Pension

Many of the financial intermediaries we interviewed were aware that pension providers are advising those who are eligible to contract back into the additional State Pension.

'Well the rules have changed recently on State Second Pension and I've got to be honest I would have to refer to my reference material for specific advice but as far as I can see the general thing is at the moment is people not to opt out of the state second pension.'

(Building society adviser)

However, their views on the complexity and uncertainty of the additional State Pension meant that there was fairly widespread unease about advising clients on whether to contract in or to contract out of it. Indeed a number of financial intermediaries expressed fears about possible mis-selling, with some of the smaller firms being particularly concerned about this.

'That's a difficult one to advise on because it's quite complex and there are a number of factors to take into account. It's not clearly a mathematical equation...'

(IFA)

'It is a pretty grey area and, again, with all these rules and regulatory changes there are too many of them. There is no stability in the guidance we get and the guidance we have to follow.'

(IFA)

This, plus the relatively small number of clients on low incomes overall, almost certainly explains why few of the financial intermediaries we interviewed said that they discussed the additional State Pension.

'Hmm, my official line on the State Second Pension is I don't advise on it... In terms of someone is contracted in and contracting out, I'm not giving advice on that... there's no clear cut answer on this anymore.'

(IFA)

Some said that they routinely included a standard paragraph on the additional State Pension in letters to clients saying that it had not been taken into account. And one gave his clients the paragraph in his training manual to read. Only a few said that it was their company policy to advise all eligible clients to contract back in to the additional State Pension, and most of these were tied advisers working in banks or building societies. It should be noted, however, that all who requested a pension forecast for their clients would have been given information on any entitlement to additional State Pension.

4.3 Pension Credit

Pension Credit is an income-related benefit that is available to people aged 60 or over who have low or moderate incomes. It has two elements: the 'Guarantee Credit' and the 'Savings Credit'.

The Guarantee Credit guarantees everyone aged 60 and over an income of at least £109.45 a week if they are single or £167.05 a week if they have a partner (2005 rates). It replaced the Minimum Income Guarantee in October 2003 and, unlike the basic State Pension, it is not based on National Insurance contributions although it is income-related.

The types of income that are taken into account when calculating entitlement to Guarantee Credit include: the basic State Pension and any additional State Pension, occupational and personal pensions, certain benefits (for example, Carer's Allowance and Bereavement Benefit); and any earnings from employment. Attendance Allowance, Disability Living Allowance, Housing Benefit and Council Tax Benefit are not taken into account. Savings below £6,000 are disregarded but anything

above this amount is deemed to generate an income of £1 a week for every extra £500 (or part of £500).

In some instances it is possible to get Pension Credit even if weekly income is more than the guaranteed amounts. First, the level of guarantee can be higher for particular groups. This applies if, for example, the applicant or their partner:

- is a severely disabled person;
- looks after a person who is severely disabled; or
- has certain housing costs – for example, mortgage interest payments.

Secondly, those who are aged 65 or over and have made some provision for their retirement (for example as savings or a private pension) may qualify for the Savings Credit element. Calculation of this is based on 60 per cent of the amount by which weekly income exceeds the Savings Credit starting point of £82.05 for a single person, £131 for a couple. The maximum amount payable is £16.44 for single people, £21.51 a week for couples. It can either be paid alone or in addition to the Guarantee Credit.

4.3.1 Knowledge of Pension Credit

Throughout the interview, financial intermediaries were asked questions that have been used to assess their level of knowledge of Pension Credit. These included questions on the barriers to take-up of pensions among people on low incomes; who they would advise against taking out a personal pension; their views of State provision generally, and Pension Credit in particular. It also included more direct questions about how they rated their knowledge of Pension Credit; what advice they gave about it, and details of the last case where it had been discussed.

On the whole, levels of knowledge of Pension Credit were not high, although they were higher among the tied advisers in banks, building societies and insurance companies than they were among IFAs.

Financial intermediaries with low levels of knowledge

Most financial intermediaries knew very little indeed. They ranged from people who admitted to never having heard of it to those who had a broad awareness. While they felt confident talking about the basic State Pension they were more diffident about discussing Pension Credit.

'Do you notice, I'm a little bit weak on it?'

(IFA)

'I understand the concept behind it but I don't fully understand [how it works]...some clients know more about it than us.'

(IFA)

They also included some who offered firm views but were clearly referring to something else. A few IFAs, for example, asserted that it had been abolished a few years ago (probably referring to the abolition of tax relief on pension fund dividends), another thought it gave people money to invest.

Financial intermediaries with low levels of knowledge commented that they were never asked for information about Pension Credit and had few clients it was likely to affect. On the whole they saw it as something that affected people who were already retired than as another factor to take into account when advising on personal pensions. They included all the financial intermediaries who did not discuss the basic State Pension in detail.

Financial intermediaries with a basic understanding of Pension Credit

A small number of financial intermediaries had a basic understanding of Pension Credit. This extended to knowing that it is income-related and a view that older people with minimal pension provision might lose some entitlement to income-related benefits. They also commented on its complexity and possible disincentive effect.

They tended to be financial intermediaries who advised a relatively high proportion of their clients on retirement planning, but few of these clients were on low incomes. All, however, got a State Pension forecast when advising clients on retirement planning.

Financial intermediaries with more than a basic understanding of Pension Credit

Only a few financial intermediaries had more than a basic knowledge of Pension Credit. They thought that older people with minimal pension provision might lose some entitlement to income-related benefits and commented on the way they felt Pension Credit might reduce incentives to save. Unlike others their views were based on experience of discussing Pension Credit with clients.

Most of them were financial advisers in bank or building society branches. Retirement planning was, however, only a very small part of their work (typically between five and 20 per cent), and few of the people they advised had low incomes. They all discussed State pension provision in detail although they were much more likely than those with basic knowledge only to request a full pension forecast for older clients.

4.3.2 Advice given on Pension Credit

None of the large group of financial intermediaries with a low level of knowledge felt able to advise clients about Pension Credit entitlement. And most of them could not remember the last time it had come up in an interview with a client.

It is, however, interesting to explore further how the small number who could remember cases where it had cropped up had dealt with the issue. Only a few of these had involved retirement planning. One IFA had been asked by a client if she would end up no better off if she took out a personal pension as her retired neighbour got quite a lot of State assistance. He told her he was *'reasonably confident the system had actually changed and that shouldn't be the case'*. This had occurred nine months previously.

Two others had current cases – both of them involving retirement planning advice with divorcees under State Pension age. One of these, an IFA, said he had requested information from the 'Inland Revenue' (now Her Majesty's Revenue and Customs) and was waiting for it to arrive; the other (who worked for an insurance company) had advised his client to order a State Pension forecast.

The remaining cases involved clients who were past retirement age. Two financial intermediaries (one working for an insurance company; the other for a bank) had been asked in the past about possible Pension Credit entitlement by elderly clients. One had referred his client to an IFA, the other to the local authority. The third case (an insurance company adviser) involved a pensioner already in receipt of Pension Credit. He did not explore this further, but simply noted that it was part of her income.

Financial intermediaries with a basic understanding also lacked confidence about advising on Pension Credit.

'I've not really discussed Pension Credit with a client in detail, because I've not really been that up on it to be honest.'

(IFA)

'I must admit that's not an area that I am particularly up on to be honest... Most clients, to be honest, don't really expect us to be able to advise on State pensions generally... Basically, in all probability I would take the specific query and then take it to our specialist. Because what I would hate to do is give advice that's incorrect.'

(Bank branch adviser)

Moreover, none of these financial intermediaries could remember the last time it had been discussed with a client.

In contrast, almost all of the few financial intermediaries who had more than a basic knowledge of Pension Credit could remember the last time it had come up in discussions with a client. None of them, however, said that it arose very often and in two cases the most recent case had been some years ago. Moreover, not all of the cases involved someone seeking advice about retirement planning. This was especially the case with bank and building society advisers who had either been asked about potential Pension Credit eligibility by people over State Pension age, or Pension Credit had come up in the course of discussion of a client's finances more generally.

In all cases they had clearly drawn on their knowledge in the advice they gave.

'It was...someone who said that they thought the Government would look after them so it's pointless taking out a pension scheme. And I said "Do you mean Pension Credit?" and he said "Oh yes, that's right." And so I went on to explain how that worked and how he might not get anything.'

(IFA)

'In actual fact we were looking at equity release, release of equity on the property, and what impact that might have on Council Tax Benefit, that they were in receipt of, and Pension Credit. And basically, what we will do before we transact any business like that is to obviously make the client aware a) to go away and check are you eligible for any of these benefits before we can give you any advice and b) if they're already in receipt of them, then we've got to look very carefully at the advice we give them and the impact that equity release that we might do would have on those.'

(Building society adviser)

Although all were aware of, and used the State pension forecasts, none of them mentioned the Pension Credit calculator that is available from the DWP website.

4.4 Other income-related benefits

Other income-related benefits such as Housing Benefit and Council Tax Benefit very rarely, if ever, arose in discussions between financial intermediaries and their clients. As a result, levels of knowledge about these types of benefits were even lower than knowledge of Pension Credit. The minority of financial intermediaries with more than a basic knowledge of Pension Credit tended also to be the ones that were aware of these other income-related benefits and their potential impact on the income of someone with only a low level of saving for their retirement.

4.5 Sources of information on State provision

As we noted in Chapter 2, all financial intermediaries are required by the FSA to undertake appropriate basic training before they can give regulated advice. Most of the financial intermediaries we interviewed had taken the old Financial Planning Certificate (FPC), which had much more limited coverage of State provision than either the new Certificate in Financial Planning (CPF) (which replaced the FPC in 2005) or the Certificate for Financial Advisers (CeFA). Only a minority of financial intermediaries - working in banks - had taken the CeFA. As a consequence very few of the financial intermediaries we interviewed said that Pension Credit had formed part of their initial training. Those where it had would refer to their training manuals for information should the need arise. Although some financial intermediaries mentioned that they had more advanced qualifications, in most cases this was the Advanced Financial Planning Certificate, which includes 'State benefits' as a small

part of one of the optional modules. Only one IFA specifically mentioned that he had taken the advanced G60 course on pensions run by the Chartered Insurance Institute.

All financial advisers are also required to undergo a programme of continuous training and testing to ensure that their skills are kept up to date. IFAs generally access seminars or training courses through their networks or other servicing bodies; tied advisers have training courses provided by their employers or pension provider. For the most part, financial intermediaries had received little refresher training on State pension provision. The few that had all worked in banks. Most of the financial intermediaries, however, said that time for training was restricted and they therefore concentrated on areas that they most needed for their work. As advice to people on low incomes was such a minor part of their work, and cases involving Pension Credit never or very rarely cropped up, they tended not to take up training opportunities in this area.

'...often as not we can't go to seminars and we pick and choose what we want to be trained on. And the FSA's continuing regime of continuous professional development means we have to do so many things a year. And because we don't do an awful lot, or hardly any at all on [Pension Credit] we tend not to choose to go on that.'

(IFA)

All financial intermediaries received regular information up-dates. Again tied advisers got this from their employer or pension provider if they were a tied adviser; IFAs from their network, or other servicing body. IFAs also relied on regular bulletins and information sheets supplied by insurance companies. A number of financial intermediaries of all types said that they regularly looked at their trade press, reading articles of particular interest.

Although they took note of changes relating to the basic State Pension, they rarely read anything about Pension Credit. Many said that if they needed information they would turn to the DWP website.

'Yes I would say from the Government point of view, that you know their websites are quite good. They're very helpful for advice.'

(IFA)

Financial intermediaries' knowledge of State provision reflected this picture of training and information gathering. As discussed earlier, most were confident dealing with the basic State Pension (which was covered by the old FPC as well as by CeFA) as this was covered in their initial training. It also tended to be included in the information up-dates that they read. Their knowledge of the additional State Pension was generally gleaned from their initial training and was, as a consequence, not up-to-date. A few financial intermediaries commented on the lack of good up-to-date information about the circumstances in which clients should be advised to

contract in. Levels of knowledge of Pension Credit were low as few had received any basic training, and with few clients needing advice in this area it was not a priority for keeping up-to-date.

The small number of financial intermediaries who had more than a basic knowledge of Pension Credit were more likely than others to have covered it in their basic training, as they included a number of bank advisers who had taken the CeFA course. Those who worked for banks, building societies or insurance companies also received regular information on the topic. One of the two IFAs with more than a basic knowledge said he had '*learnt about Pension Credit on the job*', the other that he had learnt about it in his previous job as a tied adviser with an insurance company.

4.6 Knowledge of State provision among senior headquarters staff

On the whole, the senior headquarters staff we interviewed were far more knowledgeable about State pension provision. In particular, their understanding of the issues relating to the additional State Pension and Pension Credit was at least as good as, and sometimes better than, the most knowledgeable locally-based financial intermediaries.

Like the financial intermediaries, they mentioned the confusion that surrounds the issue of whether to contract in or contract out of the State Second Pension.

As for Pension Credit, they spoke in far more detail than the financial intermediaries about the disincentives it can create for people to save and also raised the way they thought it inhibits sales.

'Means tested benefit does inhibit the sales we make, because we don't make sales to a good number of people [on low incomes] for that reason.'

'One of the main barriers is regulatory fear, and the other barrier is simply the fact that, actually, if you were to advise people theoretically correctly, many people on low incomes you would probably advise not to save in a pension if they hadn't got to, simply because of the potential loss of means-tested benefit. So it's actually a very fraught area for an adviser.'

However, he went on to qualify this, saying that the impact on the public is minimal.

It is interesting to note that, in contrast, none of the locally-based financial intermediaries raised fears about potential mis-selling as a consequence of Pension Credit. There are two possible reasons for this, both related to levels of knowledge. First, few local financial intermediaries saw many people who might qualify for Pension Credit. Secondly, the headquarters' staff were more engaged with national debates and were consequently better-informed about the potential implications of Pension Credit for the sale of personal pensions.

Moreover, there seemed to be a view that the potential disincentive effects of Pension Credit were a further complication but certainly not the main reason why people on low incomes failed to take out personal pensions. Apathy and lethargy were considered far more important.

'...it adds a further complication, it makes it harder to get people to make that decision. So, if I'm a prevaricator, a procrastinator, there's another reasons not to [take out a pension].'

5 Advice in the workplace

In recent years there has been considerable interest in the workplace as a mechanism for delivering financial services and financial advice to individuals. The main advantages of this approach are first, that providers and financial intermediaries have the opportunity to engage with a large number of people in a cost-effective way. Secondly, workplace-based provision may attract people who would otherwise not seek information or advice, including people on low incomes. Thirdly, employers may be able to negotiate price discounts not available to individuals (Sandler Review 2002; Treasury Committee 2004b)¹⁷.

There have been concerns, however, that the regulatory framework has hampered the use of the workplace as a conduit for financial services and advice (Treasury Committee 2004b). Consequently, as part of its two-year review of the Financial Services and Market Act (FSMA), the Treasury has introduced regulatory changes to enable employers to do more to promote the value of pensions and to provide better information about schemes.

Employers can already promote occupational pension schemes to their employees, as these schemes are not included in the FSMA's financial promotion regime. Following consultation, the Government has concluded that, from 1 July 2005, employers offering group personal pensions and group Stakeholder pension schemes should similarly be able to promote their schemes, as long as the employer makes a financial contribution to the scheme and discloses the size and nature of that contribution.

¹⁷ The downside to lower cost provision is that providers may be unable to offer any marketing or support services to promote take-up of a scheme.

5.1 The provision of pensions through the workplace

Since the introduction of the Stakeholder pension in 2001, employers with five or more employees have been required to have pension arrangements in place for their employees. This has led to substantial increases both in the proportion of employers offering some form of pension provision, and the proportion of employees who have access to workplace-based pension provision. The most recent survey of private-sector employers' pension provision found that 52 per cent of organisations provided some type of pension or pension access, while 92 per cent of private sector employees worked in organisations that offered some form of pension provision (though this could simply involve providing access to a stakeholder provider without any employer contributions) (Cebulla and Reyes De-Beaman 2004).

There are three main types of pension scheme offered through the workplace:

- Occupational pension schemes are only available through an employer and are run by a board of trustees. Occupational schemes can be salary-related (defined benefit) or money purchase schemes (defined contribution).
- Group personal pension schemes are a collection of personal pensions that employers arrange with a pension provider for their employees.
- Group Stakeholder pension schemes are similar to group personal pension schemes, but have to meet certain minimum standards set down by law.

Employees who belong to an occupational salary-related pension scheme generally receive financial contributions from their employer towards their pension fund. This may or may not be the case for members of group personal or group Stakeholder pension schemes.

The single most common type of provision in the private sector is access to Stakeholder pensions, provided by 35 per cent of employers. Group personal pension schemes are offered by 12 per cent of private-sector companies, while only seven per cent offer access to an occupational pension scheme (Cebulla and Reyes De-Beaman, 2004). It is worth noting that large public sector employers, such as the NHS and local authorities, are much more likely to have occupational pension schemes than firms in the private sector.

5.2 The provision of pension advice through the workplace

Most of the financial intermediaries who were interviewed gave little or no advice in the workplace. For a handful (all IFAs), workplace advice formed a greater proportion of their work – typically between ten and 25 per cent. This generally seemed to involve setting up and administering group personal or group Stakeholder pension schemes and marketing them to employees to encourage take-up. Some also offered one-to-one advice to employees, although this happened fairly infrequently. For the most part, if someone wanted one-to-one advice they were taken on as a client in the usual way.

Larger pension providers, however, often have teams that specialise in selling, implementing and maximising membership of employer-based pension schemes. This can be part of a wider service that offers expertise on employee benefits more generally. Providers may also work with IFA firms to develop this area of business.

Six of the interviews that we carried out provided details about the type of information and advice that is delivered to employees through the workplace. With the exception of one bank, all these interviews were with insurance companies and comprised five senior staff (mainly sales managers), along with one financial intermediary who both carried out and supervised workplace presentations.

Most talked about having teams of between ten and 12 staff who made workplace presentations to a wide range of employees about the pension scheme offered by their employer, typically either a group Stakeholder or other group personal pension scheme. One pension provider also ran workshops for people approaching retirement, which covered issues such as the purchase of annuities, tax issues (including Inheritance Tax) and long-term care¹⁸. Because workplace pension schemes are open to all employees, presenters tended to deal with a larger proportion of people on lower incomes than financial intermediaries who mostly or solely provided advice on an individual basis.

Some presenters were fully qualified to give regulated advice, others were not. Without exception, however, these presentations only provided generic information about the pension scheme and planning for retirement. For regulatory reasons, the presenters were not allowed to provide advice or make any recommendations during the course of the presentation.

'...we drill into the team that they must not give an opinion.'

In some cases, employees could access financial advice on a one-to-one basis outside the presentation, but in practice this was fairly uncommon.

5.2.1 Format and content of presentations

Before the presentation, employees were generally given an application pack, which contained information such as details of their employer's pension scheme, a Key Features Document and decision trees¹⁹.

The format of workplace presentations was fairly similar across the different pension providers, and usually comprised a PowerPoint presentation followed by a question and answer session. Employees often had an opportunity to ask questions of the presenters on an individual basis as well, after the formal session was over.

¹⁸ At the time of the interview, these workshops were being run as a pilot scheme.

¹⁹ Decision trees were developed by the FSA to help people decide if a Stakeholder pension is a good way for them to save for retirement.

In terms of content, the presentation generally began by outlining the reasons why people should save for their retirement, and the cost of delay in starting a pension. It then moved on to describe the details of their employer's pension scheme and how it worked. This included the benefits of the scheme (including tax relief on contributions) and, where appropriate, the amount that their employer would contribute.

Some of the presentations included illustrations of how much income employees could expect from their pension scheme, based on different levels of contributions and different starting ages. One pension provider also sent individualised illustrations to employees on request.

5.2.2 Coverage of State pension provision in presentations

State pension provision was covered in all the workplace presentations, but generally only in relation to the basic State Pension. Two presentations mentioned additional State Pension, and one of these also provided basic information about Pension Credit.

Although all the presentations included some information about the basic State Pension, it tended to be rudimentary. Typically, the presentations covered the amounts of money that people currently received in the form of basic State Pension and the likely level of this provision in the future. As with advice provided on an individual basis (Chapter 4), this information was generally used as a backdrop to why employees should be saving for retirement.

As well as the basic State Pension, two of the workplace presentations covered the additional State Pension. Again, the information was fairly basic – both outlined what employees would potentially get by way of additional State Pension, and one also looked at the eligibility criteria for additional State Pension.

One of these presentations also included Pension Credit in its illustrations of the help available from the State. This was the only presentation to explicitly cover Pension Credit. A senior member of staff from another pension provider mentioned that their presenters were trained to answer questions about Pension Credit, even though it was not covered in the presentation. Indeed, it seems likely that most presenters would have a basic knowledge of Pension Credit in order to answer any questions from employees.

As mentioned above, one of the pension providers also ran workshops in the workplace for people approaching retirement. These sessions included a much larger section on state provision, and covered not only the three main types of retirement benefit but also the wide range of other state benefits that people might be eligible for in retirement.

On the whole, people who were interviewed in relation to advice provision in the workplace had above-average knowledge of Pension Credit. This was almost certainly because they came into contact with more people on low or moderate

incomes. They personally felt that Pension Credit was poorly understood by employees, and could be a hindrance to the take-up of occupational or private pension schemes.

5.2.3 One-to-one advice

As well as making presentations in the workplace, two of the pension providers we interviewed offered employees access to some form of regulated financial advice on a one-to-one basis. One provided telephone advice, and mostly received enquiries about transferring previous pension plans into the employer's scheme. The advice process was similar to that outlined in Chapter 3 – the adviser and employee had an initial conversation and then a full fact find was carried out. This information was then run through a computer-based analysis programme, which compared the benefits of the employee's existing pension arrangement with the benefits they would receive if they transferred into their current employer's pension scheme. Based on this analysis, the employee would then be advised whether or not to transfer their pension. There was no charge for this type of advice that was provided on a one-off basis. This pension provider also had a telephone helpline for members of its workplace-based pension schemes, which just provided factual information about the scheme.

In the second case, one-to-one financial advice was available to all employees. In practice, though, if the employer did not make a contribution to the scheme advisers had little or no contact with employees, and so had no opportunity to provide advice.

Other pension providers offered employees generic information (but not advice) by way of one-to-one meetings with a member of the workplace-based team. This information tended to be similar to the workplace presentation, and the same materials were used.

5.3 Factors influencing the take-up of employer-based pension schemes

In the opinion of those involved in workplace pension schemes, the availability of employer contributions was a key driver to increasing take-up among employees. Without such contributions, it was very difficult to get employees to join the scheme. For this reason, some pension providers only offered workplace presentations in cases where the employer contributed to the pension fund.

It was acknowledged, however, that employer contributions alone were not always sufficient to overcome employee apathy about taking out a pension. Several people mentioned that such apathy was a particular problem among lower earners, who tended to regard saving into a pension simply as a cost rather than a benefit. Face-to-face contact with employees through workplace presentations was an important motivating factor, along with the active support of the employer – for example, by

making it possible for employees to attend presentations during work time. Even then, one sales manager talked about employees having to be 'shepherded' to presentations. Automatic enrolment of employees (also known as negative affirmation or opt out) into group personal pension plans or Stakeholder pension schemes was also mentioned as a good way of encouraging take-up²⁰.

Some of those involved in workplace schemes (including a number of financial intermediaries for whom it was only a small proportion of their work) talked about the problem of 'shell' schemes – Stakeholder pension schemes set up by companies to fulfil their legal obligations. These employers generally did not make any financial contribution to their employees' pension plans or even promote it to their employees. Consequently, these schemes had few, if any, members.

This is confirmed by recent research, which found that three-quarters of private-sector organisations that provided access to Stakeholder pensions reported no active members among their workforce. This was largely the case in smaller organisations (up to 19 employees), and the figure declined to 28 per cent of organisations with 1,000 or more employees (Cebulla and Reyes De-Beaman 2004). Only 17 per cent of private-sector organisations that provided access to Stakeholder pensions also contributed to these pensions (ibid).

Finally, it should be noted that the impact of Pension Credit and other income-related benefits were not seen as a major deterrent to the take-up of private pensions by low earners.

²⁰ The DWP has published guidance on the regulatory framework for automatic enrolment into workplace pension schemes (DWP, 2005).

6 Conclusions and policy implications

Few people actively seek advice about saving for retirement. Almost all the financial intermediaries who took part in this study said that advice about personal pensions was usually given as part of a more general financial review. There was also a consensus that personal pensions have to be sold – they are not bought.

Moreover, the clients of financial intermediaries included very few with lower incomes. This was not because they were systematically excluded, but because they do not approach financial intermediaries for advice. At the same time, it is clear that IFAs do not promote their services to people on lower incomes because the commission they can earn in this sector of the market is too low to make it worthwhile. In this context, it is important to note that the decline in the direct sales forces of pension providers and shift to selling through IFAs will have reduced access to advice for people on lower incomes.

Because their customer base tends to be people with middle-to-high incomes, financial intermediaries rarely (if ever) discussed Pension Credit (or the additional State Pension) with their clients. And, as Pension Credit was not something they routinely deal with, there was no particular reason for them to keep up-to-date about it. As a result, levels of knowledge about Pension Credit were low among the financial intermediaries who took part in the study. Linked to this, there was little evidence to suggest that Pension Credit makes financial intermediaries reluctant to advise people with lower incomes. Nor did they think it played an important part in clients' decisions regarding saving for retirement.

Financial intermediaries considered a general loss of confidence in the pensions industry resulting in inertia, to be the biggest barrier by far to the take-up of personal pensions among people on lower incomes. In their view, concerns about affordability and a lack of understanding about pensions and how they work are also significant barriers to taking out a personal pension.

This sense of apathy came across particularly strongly from the interviews with senior staff and financial intermediaries who sold group personal (and Stakeholder) pensions and made presentations in the workplace. Compared with financial intermediaries who delivered advice on an individual basis, they came into contact with more people on lower incomes. All of them, however, reported that it was hard to promote pension take-up in this market. This was even the case when the employer was proactive in encouraging employees to attend presentations and made a financial contribution to the employee's pension fund.

In short, while there is a lack of advice on saving for retirement for people on lower incomes, the greater problem seems to be getting them to engage with the need to save at all.

6.1 Information for financial intermediaries

As part of its programme of work on enabling people to make informed choices for retirement, DWP has developed a number of information initiatives that are potentially of real value to financial intermediaries, including State Pension forecasts, Combined Pension Forecasts, the Real Time Pension Forecasting e-service, a Pension Credit calculator, and a Web-Based Retirement Planner that will be launched in spring 2006.

As we have seen, many – but by no means all – financial intermediaries already make full use of the State Pension forecast service and find it a useful tool in their work. Since 2001, a Combined Pension Forecast has also been available, which forecasts an individual's State Pension alongside their occupational or private pension. Pension providers can apply to the Pension Service for a forecast of State Pension entitlement that can be included in annual pension statements sent out to scheme members. Members and their advisers cannot, however, request one direct.

At present, employers and pension providers issue such forecasts voluntarily. Reserve powers in the Pensions Act 2004 would allow this to become mandatory if the Government felt that this was appropriate. By the end of February 2005, more than 2.7 million forecasts had been issued and the aim is to issue 6.3 million by the end of 2005-6. A recent evaluation indicated that employees welcomed their employers' participation in the Combined Pension Forecast scheme and many had contacted professional advisers and others to discuss their financial situation (Bunt, Adams and Mottram 2004)

Three online information initiatives developed by DWP primarily for consumers could also be used by financial intermediaries with their clients. The first is the Pension Credit Calculator, which could be used by financial intermediaries with their clients who have already retired, to help them estimate how much Pension Credit they may be entitled to.

The second is the Real Time Pension Forecasting e-service, which allows people to obtain their state and private pension forecast online, where possible.

The third is a Web-Based Retirement Planner, which will be launched in the spring of 2006. This is designed to help people:

- estimate the income they might want in retirement;
- take into account State and private pension provision and other savings;
- illustrate the choices available for people to address any shortfall between their estimated needs and possible income;
- look at the implications of options such as saving more or working longer;
- signpost people to options they could consider as part of their retirement planning process;
- identify and trace any 'lost' pensions.

Initially, financial intermediaries will be able to sit alongside clients while they use the Retirement Planner. At a later date, it is planned that intermediaries will be able to have full access to the Retirement Planner and use it on their client's behalf.

Given the generally low levels of knowledge of State provision evident among financial intermediaries, these tools should be actively promoted to them through IFA networks and pension providers. It will help that many financial intermediaries already seem to use the DWP website as a source of information. The Financial Ombudsman Service uses roadshows and other events to engage in a direct dialogue with IFAs and other financial intermediaries. DWP may wish to consider something similar to promote the information initiatives that have been developed. In developing the Web-Based Retirement Planner, and the DWP website generally, the needs of financial intermediaries should also be borne in mind.

To make the most effective use of these tools, financial intermediaries require at least a working knowledge of the State pension system. In this respect, a closer working relationship between the Pension Service and those involved in providing information and training to IFAs (such as IFA networks and pension providers) could be beneficial, particularly with regard to the overall relationship between State and private provision for retirement.

6.2 Advice for people on lower incomes

There is clearly a gap in the provision of advice on pensions and retirement planning to people on lower incomes that needs to be filled. But, as we note above, the greater problem is getting people on lower incomes to engage with the need to save.

Most personal pensions are sold through IFAs. Moreover the great majority of IFA's clients opt to pay for the advice they receive through commission rather than fees. The low levels of commission payable on small investments in the types of products, such as Stakeholder pensions and ISAs, that tend to be recommended to people on

lower incomes mean that IFAs can earn little from this area of work – even with the new price cap on Stakeholder pensions of 1.5 per cent for the first ten years and one per cent thereafter, which came into effect in April 2005.

In view of this, it seems unrealistic to expect IFAs to expand their work to encompass more small investors. It will almost certainly be necessary to find other ways of providing advice on saving for retirement to this end of the market.

6.2.1 Basic advice regime

Following the Sandler Review and in response to the Treasury Committee inquiry into long-term savings, the Government has introduced a new basic advice regime for simple savings and investment products, including Stakeholder pensions. The FSA requires basic advisers to be competent to perform their role, but they do not expect them to have the formal qualifications that are required of financial intermediaries who sell other regulated products. Advisers are also expected to establish the basic suitability of a product for the client. The basic advice process, as tested by the FSA, is quicker and ought to increase the economic viability of Stakeholder pensions to people on lower incomes with only small sums to invest.

6.2.2 Role of advice centres

There is a large network of not-for-profit, independent advice centres that specialise in providing advice to people on lower incomes. These include citizens advice bureaux and other local advice agencies that are members of advice^{UK}. Many of these agencies provide debt advice to people in financial difficulty. Only a minority give pre-shopping advice on financial products, and this is limited to generic advice. Should clients require more extensive advice, they may be referred to IFAs who carry out *pro bono* work. It has never been entirely clear whether such advice centres should be subject to financial regulation by the FSA.

Following the two-year review of the Financial Services and Markets Act (FSMA), HM Treasury has proposed that not-for-profit, independent advice centres should be exempted from the FSMA financial promotion regime. This will allow them to offer generic advice, provided they have adequate professional indemnity insurance cover and their principal activity is debt advice. They will also be able to refer and/or introduce clients to authorised financial advisors and product providers.

This work provides a base from which information and advice on saving for retirement could build – perhaps utilising the basic advice regime outlined above. But it will require a substantial injection of finance, as many advice centres are already under-funded for the debt advice they provide.

Generic financial advice is also one of the strands of work within the FSA's financial capability strategy. A working group on generic advice has been established, with the overall objective of identifying gaps in provision, considering whether there is a case for providing wider coverage and, if there is, to propose solutions.

Recent research carried out for the FSA explored the scope for citizens advice bureaux to provide generic advice (BMRB International Limited 2004). Since then, several pilot schemes have been established to test different delivery models. These include dedicated generic advice workers within citizens advice bureaux and partnership arrangements between bureaux and IFA firms.

6.2.3 Advice through the workplace

There is a broad consensus in the pensions industry that the delivery of pensions advice through the workplace is a good way of promoting saving for retirement (Treasury Committee 2004b). Moreover, it is clear from this research that it is one of the best ways of reaching people on lower incomes.

However, as mentioned in Chapter 5, while employers who offer a group personal or group Stakeholder pension scheme can draw it to the attention of their employees, they have not been permitted to promote the scheme or to encourage employees to join. In July 2005, however, the Government amended the FSMA 2000 (Financial Promotions) Order 2001, to allow employers to promote these types of schemes to their employees, as long as certain conditions are met. Employers can only promote a pension scheme if they make a financial contribution to it; they receive no direct financial benefit from the promotion; and the promotion is made by a direct employee.

The promotions can be written or oral and there are no legal restrictions on the types of promotional material that can be provided. They can include generic advice about the benefits of taking up a pension in general, or tailored financial advice to individual employees about how they should manage their personal finances. In practice, though, it is unlikely that many employers will have staff whom are sufficiently competent and knowledgeable to give specific personal advice. It is the employer's responsibility to ensure that staff have sufficient knowledge of the scheme they are promoting and there are no formal training, competence or accreditation requirements. Moreover, promotions do not have to be approved by a person who, in turn, has been authorised by the FSA.

As part of its Informed Choice programme, DWP established a pilot study in July 2004, which has tested various ways of delivering information and advice about pensions through the workplace. The results of this research will inform the role that employers who make little or no contribution to employees' pensions might play in the future.

6.3 Overcoming the barriers to saving for retirement

The real challenge, though, is getting people on lower incomes to engage with the need to save for retirement. The financial intermediaries who participated in this study believed that there was widespread apathy and mistrust of pensions, pension providers and advisers, particularly among people on lower incomes. This scepticism has been noted in other recent research for DWP (Green and White 2005) and was the motivation behind the recent Treasury Committee's inquiry *Restoring confidence in long-term savings* (Treasury Committee 2004b).

The experience of financial intermediaries involved in workplace presentations shows how difficult this will be. Indeed, financial intermediaries generally believed that the Government should take the lead in restoring confidence in the pensions industry and tackling the scepticism that seems to be prevalent among large sections of the population.

These barriers are far more significant than the potential disincentive that can be created by the interaction between Pension Credit and other income-related benefits and low incomes from private pension provision. While this has featured in national debates on increasing the provision made by people on low to moderate incomes for their retirement, there is little evidence that it is influencing the advice given by financial intermediaries or the decisions made by their clients.

Appendix A

Research tools

Screening questionnaire

1.1 First of all, does your (company/bank) offer advice to individuals on pensions or retirement planning?

Yes 1 → 1.2
No 2 → close

1.2 Which of the following types of pension advice do you offer?

READ OUT AND CODE ALL THAT APPLY

Advice on retirement planning generally 1 → 1.3
Advice on specific pension products 2 → 1.3
Advice on state provision for pensioners 3 → 1.3
None of the above 9 → close

1.3 In which of the following ways do you offer advice? READ OUT AND CODE ALL THAT APPLY

Face-to-face 1 → 1.4
On the telephone 2 → 1.4
At the workplace 3 → 1.4

1.4 Are there any groups of the population that you do not normally offer pension advice to? PROMPT: What others? CODE ALL THAT APPLY

Low income groups 1 → close
Middle income groups 2 → 1.5
High income groups 3 → 1.5
Other – WRITE IN 4 → 1.5
.....
Cover all groups 9 → 1.5

1.5 How do you normally charge for advice on pensions – on a commission or fee basis?

Commission only 1 → recruit
 Fee only 2 → 1.6 and 1.7
 Both 3 → 1.6 and 1.7

1.6 And how much are your fees for pension advice? TRY AND GET HOURLY RATES OR OTHER CHARGING DETAILS – WRITE IN BELOW

1.7 And do you ever offer any free time, before starting to charge a fee. For example, is the initial consultation free? WRITE IN BELOW

RECRUIT ALL ELIGIBLE:

The next stage of our research involves a colleague from Bristol University telephoning you to ask a few more detailed questions about the advice you offer on pensions. This will take around half an hour and will be arranged at a convenient time. Would you be the person to talk to, or would a colleague be more appropriate?

Yes, respondent 1 → check details
 Yes, colleague 2 → check details
 No 3 → close

All I need to do now is check your/their details and take a note of when it would be convenient for the researcher to call you/them.

CHECK DETAILS ON CONTACT SHEET, AMENDING AS NECESSARY AND WRITE IN PREFERRED APPOINTMENT DETAILS

Topic guide for financial intermediaries

- **Proportion of their (and their colleagues?) work that is related to advice on financial provision for retirement:**
 - Details of the approximate numbers and types of clients advised on financial planning for retirement.
 - Extent to which they provide advice to groups that have low levels of pension provision eg women, self-employed, people on low incomes.
 - Whether they provide advice in the workplace:
 - ~ If so, what is the split between one-to-one advice and advice through the workplace?
- **Nature of the advice they give in this area, including the proportion of their advice that involves:**
 - General advice on retirement planning.
 - Advising people on specific pension products (and the ones they cover).
 - Advice on state provision.
 - How they charge for this advice (fee or commission; any initial 'free' interviews; and whether varies by type of advice).
- **How does the nature of the advice differ between different types of client?**
 - What factors influence it?
 - Whether they suggest different types of products to different clients. (prompting for women; self-employed people and people on low-incomes):
 - ~ If so, what is the underlying rationale for this?
 - **If appropriate** Whether advice given in the workplace differs from other advice? If so, how?
- **Are there any groups to whom they would not give advice? If so:**
 - Which groups (prompting for women; self-employed people and people on low-incomes)?
 - Why?
 - ~ Do they decline to advise them; or do people not approach them for advice?
 - ~ If decline, where would they refer them?
- **What process do advisers go through when providing advice to people on lower-middle incomes?**
 - What are the main steps?
 - Do they complete a fact find?

- **What do they think are the triggers for the take-up of private pensions by individuals?**
 - And what are the barriers to take-up?**
 - Prompt for views of constraints on women; self-employed and people with low-incomes.
- **Are there any groups who they think should not be making private pension provision?**
 - Who (prompting on women; self-employed and people with low-incomes)?
 - And why?
- **What could the Government do to increase the take-up of private pensions?**
- **What are their views of current state provision for pensioners? Prompts to include:**
 - State Retirement Pension.
 - State Second Pension.
 - Pension Credit.
 - Other mean-tested benefits eg Council Tax Benefit, Housing Benefit.
- **How do they think state provision might change in the future? Prompts to include:**
 - State Retirement Pension.
 - State Second Pension.
 - Pension Credit (and whether they think it might be abolished in future).
 - Other mean-tested benefits eg Council Tax Benefit, Housing Benefit.
 - **Do these anticipated changes affect the advice they give in any way?**
- **How much do they know about each of these three areas of provision? How did they acquire their knowledge?**
 - State Retirement Pension.
 - State Second Pension.
 - Pension Credit.
 - Other mean-tested benefits eg Council Tax Benefit, Housing Benefit.
 - Have they had any training in Pension Credit?

- **When was the last case where they discussed Pension Credit with a client?**

- What was the nature of the discussion? What advice was given?
- How commonly does this crop up?
- With which types of client?
- If never discussed Pension credit with a client, why not?

- **Probe with all**

- Knowledge of Pension Credit.
- Any concerns about the issue of mis-selling.

- **End with the following scenarios, asking them to talk us through the advice about retirement provision that they would give to someone in these circumstances**

- **Scenario 1**

- Man, aged 35 and married with three children, home owner.
- Has about five year's contributions to defined contribution personal pension. Pays in £50 a month.
- Works full-time (and has done since he was 20), earns approximately £14,000 a year.

The following information should only be provided if the adviser says he needs to know about the household's finances.

- Wife works part-time (earnings £6,000). No pension provision.

- **Scenario 2**

- Woman, 50, divorced (but with no entitlements to ex-husbands savings/pension), two children who have left home. Owns home outright.
- She has no private pension or past provision and no private savings.
- Works full-time (and has done since she was 20), earns £20,000 a year and has access to an occupational pension scheme.

Topic guide for headquarters staff

- **Nature of the advice given by front-line staff on pensions and retirement planning:**
 - Who provides this at a local level?
 - What does it include?
 - ~ General advice on retirement planning.
 - ~ Advising people on specific pension products (and the ones they offer).
 - ~ Advice on state provision.
 - Do customers actively seek advice on pensions? Or is pensions advice normally initiated by the adviser?
 - How do they charge for this advice (fee or commission; any initial 'free' interviews; and whether varies by type of advice).
 - Is any advice given in the workplace? (obtain details and copy of presentations if possible).
- **What process do advisers go through when providing one-to-one pensions advice?**
 - Is there a standard procedure for staff to follow?
 - What are the main steps?
 - Do they complete a fact find?
- **How does the nature of the advice differ between different types of client?**
 - What factors influence it?
 - Whether staff suggest different types of products to different clients. (prompting for people on low-incomes).
 - ~ If so, what is the underlying rationale for this?
 - ~ Is there an income threshold?
 - **If appropriate** Whether information/advice given in the workplace differs from other advice? If so, how?
- **Are there any groups to whom they would not give advice on pensions? If so:**
 - Which groups (prompting for people on low-incomes)?
 - Why?
 - ~ Do they decline to advise them; or do people not approach them for advice
 - ~ If decline, what advice do they give them? Would they refer them to somewhere else?

- **What do they think are the triggers for the take-up of private pensions by individuals?**

And what are the barriers to take-up?

– Prompt for views of constraints on people with low-incomes.

- **Are there any groups who they think should not be making private pension provision?**

– Who (prompting on people with low-incomes)?

– And why?

- **What are their views on current state pension provision and how it might change in the future? Prompts to include:**

– State Retirement Pension.

– State Second Pension.

– Pension Credit (and whether they think it might be abolished in future).

– Other mean-tested benefits eg Council Tax Benefit, Housing Benefit.

– **How does this affect the advice that their staff give?**

References

- ABI (2005) *Financial advice: How should we pay for it?* London: ABI.
- BMRB International Limited (2004) *Widening the scope? FSA and CAB research into delivering financial advice through the CAB* (Consumer research Report 26). London: FSA.
- Bunt, K., Adams, L. and Mottram, C. (2004) *Combined Pension Forecasts: a report on the experiences and views of CPF providers and recipients* (DWP Research Report 212). Leeds: Corporate Document Services.
- Cebulla, A. and Reyes De-Beaman, S. (2004) *Employers' Pension Provision Survey 2003* (DWP Research Report 207). Leeds: Corporate Document Services.
- Collard, S. (2001) *Financial Services Consumer Panel Annual Survey 2000*. London: Financial Services Authority.
- Financial Services Consumer Panel (2004) *Financial Reviews*. London: Financial Services Consumer Panel.
- Department for Work and Pensions (2002) *Simplicity, security and choice: Working and saving for retirement* (CM5677). London: The Stationery Office.
- Green, E. and White, C. (2005) *Effective means of conveying messages about pensions and saving for retirement* (DWP Research Report 239). Leeds: Corporate Document Services.
- HM Treasury (2004) *Financial Services and Markets Act two year review: changes to secondary legislation. Government response*.
- Mintel (2003) *Advice and independent intermediaries: Post depolarisation*. Mintel
- The Pensions Advisory Service (2005) *Advising on pensions: a report on activities 2004/05*. London: The Pensions Advisory Service.
- Sandler Review (2002) *Medium and long-term retail savings in the UK: A review*. London: The Stationery Office.

Treasury Committee (2004a) *Restoring confidence in long-term savings: Endowment mortgages. Fifth Report of Session 2003-04* (HC394). London: The Stationery Office.

Treasury Committee (2004b) *Restoring confidence in long-term savings. Eighth Report of Session 2003-04* (HC71-I). London: The Stationery Office.

Treasury Committee (2004c) *Responses to the Committee's Eighth report: Restoring confidence in long-term savings* (HC71). London: The Stationery Office.