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

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This research was commissioned by the Department for Work and Pensions (DWP) to investigate the advice about pensions and saving for retirement given by financial intermediaries. Within this objective, it sought to increase understanding about whether Pension Credit and income-related benefits affect the advice given to people on low incomes.

The core of the research involved depth interviews with 45 local financial intermediaries. 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 lower 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.

Main findings

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, many of whom work in one of the 10,200 small IFA firms. There are about 300 large firms that 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 teams of staff who make generic presentations in the workplace, most of whom are not authorised to give advice to individuals.

Retirement advice to individuals through financial intermediaries

Most financial intermediaries provided advice to individuals across a range of financial products and only a minority said that at least half of their work related to planning for retirement. Almost all of them said they would advise anyone who contacted them regardless of their income, although in practice, they advised very few people on low incomes – if any at all.

Financial intermediaries identified four main triggers for people making private pension provision. The most important was the level of the basic Sate Pension, which they often used to spur their clients into making provision for 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 people specifically seek advice on planning for retirement and pensions generally have to be sold – they are not actively bought.

Lack of consumer confidence in long-term savings, pension providers and advisers was identified by financial intermediaries as the main barrier to people saving for their retirement. This results in inertia with regard to retirement planning. Affordability ran a close second, followed by a perceived widespread lack of understanding about pensions. Hardly any financial intermediaries said that potential eligibility for Pension Credit or other income-related benefits acted as a deterrent.

Advice was invariably provided face-to-face and usually took place over two or three meetings. To comply with FSA rules, the advice process has become increasingly standardized. Only the advice given and the recommendations made were tailored to individual circumstances. Many financial intermediaries said that they would recommend a Stakeholder pension to people on lower incomes, especially if affordability was an important consideration. Some, however, believed that it was more important for low-income clients to have cash savings or adequate insurance to provide financial security for their family before considering long-term saving for retirement. Pension Credit and other 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 basic State Pension; the additional (or Second) State Pension (and its predecessor SERPS) and Pension Credit. 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.

On the whole, financial intermediaries felt reasonably well-informed about the basic State Pension. It had been covered in their initial training and they knew they could check the DWP website for details if needed. Some discussed possible entitlement in detail with their clients, using personal State Pension forecasts from DWP. Others talked about the basic State Pension in general terms only, if at all, stressing their view of its inadequacy.

Most financial intermediaries 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. Consequently, there was fairly widespread unease about advising clients on whether to contract in or to contract out of the State Second Pension.

Knowledge of Pension Credit was lower still and most financial intermediaries did not feel able to advise clients about it. Most said they had few clients it was likely to affect and could not remember the last time it had come up in an interview.

A small number of financial intermediaries had a basic understanding of Pension Credit. 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. 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. 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.

The few financial intermediaries 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 information up-dates from employers, pension providers or IFA networks. Others would use the DWP website if they needed information.

Senior headquarters staff were also, 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. Unlike the local financial intermediaries, they also raised fears about mis-selling.

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. Consequently only the few financial intermediaries with more than a basic knowledge of Pension Credit were also aware of these other income-related benefits and how they might affect the income of someone with a small private pension.

Advice in the workplace

Most advice in the workplace is given by specialist teams employed by the larger pension providers. Without exception, the presentations they made to employees only provided generic information about the pensions and planning for retirement. Some gave one-to-one advice outside the presentation, but this was not commonplace.

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. Few presentations mentioned additional State Pension, and just one covered Pension Credit. One pension provider also ran pre-retirement workshops for employees and these covered State provision in much greater detail, including Pension Credit and other income-related benefits. Presenters from all teams had a basic knowledge of Pension Credit and would have been able to answer simple questions.

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

Those involved in workplace presentations felt that the availability of employer contributions was a key driver to increasing take-up among employees 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 financial intermediaries have very few clients with low incomes. Consequently financial intermediaries rarely, if ever, discussed Pension Credit with their clients and their levels of knowledge were fairly low. There was little evidence 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. 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 effective use of these tools, financial intermediaries need a working knowledge of the State pension system, and a closer working relationship between the Pension Service and those involved in providing information and training to IFAs could be beneficial.

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. Few people with lower incomes would be willing to pay for fee-based advice from an IFA and the levels of commission payable on small pension contributions act as a disincentive to IFAs developing their work in this area. Initiatives to increase the availability of advice to people on low or moderate incomes include the introduction of a basic advice regime for simple savings and investment products like Stakeholder pensions; developing the generic financial advice provided through not-for-profit advice centres, such as citizens' advice bureaux, and allowing employers who contribute to a group personal pension to promote it to their employees. This research suggests that, in the short-term, the last of these will have the greatest impact on pension take-up.

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.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 895 3. Research Report 289. October 2005).

It is available from Paul Noakes at the address below.

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