Written evidence from Portafina Investment Management Limited (APS0006)

Portafina Investment Management Limited are a regulated independent financial advisory firm specialising in providing pension advice. The majority of our clients would be considered to be in the “advice gap” by the wider industry, with a median pension pot of just over £50,000 when they come to us for advice.

Many of our new clients are initially interested in using the pension freedoms to access their pensions before they retire. Typically they would be looking to use the tax free element to clear existing debt or their mortgage with a view to using the remaining pension pot for income in retirement. They often have no other savings and see their current financial situation as unsustainable. We typically advise around 2,000 such clients each year.

We have a good understanding of how this demographic makes decisions around accessing their pensions, and also their behaviour relating to their pension savings subsequently and at retirement.

Do people have access to a range of pension options to meet their needs for later life and how might these needs change in future?

Yes they do, but the reality of these options depends greatly upon the size of their pension pot and personal circumstances. Much is made of the reduction and subsequent freezing of the pension lifetime allowance to £1,073,100 and at that level you have a lot of scope to mix and match the available options to give a good balance of flexibility and certainty.

Most people’s retirement savings look nothing like that, however, including those who do have a pension of their own. The FCA confirmed in their Retirement Outcomes Review interim report that the median pension pot for those aged 55-64 was just £25,749, with 75% of pension pots below £80,935.

For context, at what many consider to be a sustainable 4% income, the median pension pot would provide a sustainable income in retirement of just £1,030 pa.

At that level, your pension’s impact on your later life needs and choices starts to look very different. £1,030 may cover most of your council tax bill, for example, so is not to be sniffed at. But the whole £25,000 may pay for the necessary repairs to your home to be fit to live in for the next ten years, or for accessibility adjustments to be made to it because your partner is becoming increasingly disabled. These choices can be complex and highly emotional. When advising such a client on a decision of this nature you need to consider carefully the impact on the client’s quality of life at the point where it can make the most difference. How the client themselves sees this is paramount.

Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?

In the same report, the FCA found that 90% of the pension pots that were fully withdrawn were below £30K in size. The vast majority withdrew this money without taking professional advice. Most IFA firms won’t consider advising clients with assets below £100K, and most non-high net worth clients won’t consider paying the sort of fees that are needed to advise them properly; and certainly not upfront. Which is why contingent charging is such an important option to be able to provide advice for clients who aren’t blessed with significant disposable income.

So no, most people aren't receiving the advice they need. This is the "advice gap" that firms like Portafina are doing our best to fill by leveraging efficiency gains and digital connectivity in background processes to make advice more available.

What role should the Money and Pensions Service have in supporting people accessing their pensions for the first time, including through pension dashboards?

We know from our experience in speaking to and advising clients who are looking to access their pension pots through freedoms that their main focus tends to be on their current need or want. If, for example, they believe their home is at risk then the emotion around that current need is understandably heightened.

The role of the pension in helping provide for them in retirement is often deemed as a problem for the future, and you have to open the clients' minds to how they may really need that income. A lot of people simply haven't thought about it, or what the reality of having the state pension being your only source of income would be like.

Educating people about the reality of their future, and how even a small pension income can make a material difference to your quality of life for potentially 20 or more years would be a fantastic service for the Money and Pensions Service to provide. This would be particularly powerful if this was started much earlier in life and not left to the last minute. This (and other money matters) really should be on the school curriculum as a key life skill.

Should the Money and Pensions Service offer enhanced guidance or limited advice for people making decisions about their pensions?

No, they shouldn't. The Money and Pensions Service has an important role to inform and educate, and to act as a free safeguard to prevent people from doing something rash. Getting people's heads around the basic concepts involved, and how beneficial their pension can be over the length of their retirement is a big – and important – task in itself.

Actually advising people on their pensions, and particularly at the critical point of accessing their funds, isn't something that can be done in a limited way as the regulations currently stand. Pensions are often complex and nuanced contracts requiring detailed scrutiny and analysis. Individual's circumstances and drivers are often equally complex and nuanced, regardless of how big or small the pension pot is. This is why specialist pension qualifications are required to provide professional advice, and a large part of (along with PI and regulatory fees, and the sheer regulatory burden of documentation, recording and reporting) why such advice tends to be time-consuming and expensive.

Is it also being suggested that the Money and Pensions Service would arrange any transfers with the pension providers, and provide any necessary ongoing management and drawdown advice should it be needed? As both *would* be needed. Would consumers have access to the Ombudsman to claim compensation should they decide the advice ultimately did not suit them, and on the same terms as regulated advice?

If a simpler, limited level of advice with a lighter regulatory touch was considered practical and in clients' best interests, then making that available to the industry to supply as a lower cost service to clients would be a better and welcome option.

Can the success of auto-enrolment in helping people save into pensions be replicated for people in retirement through investment pathways?

Maybe, but many choices at retirement have permanent and significant implications, whether it being annuitising, crystalising benefits or taking a lump sum large enough to lead to a subsequent tax demand. Any of these could lead to a bad outcome for the individual.

By contrast, auto-enrolment has been and is almost entirely positive and risk-free, and decisions relating to it are flexible and reversible.

Can the issues around small pension pots be solved through behavioural changes by savers?

The best way would be to make resolving it the default option, with as little effort or thought as possible required by the individual.

One option would be that when starting a new job, make it the default to transfer the old pot to the new workplace scheme without charge, with the option to transfer it to your personal pension should you have one. Make this part of the normal setting up of the new workplace scheme so consolidation becomes a natural part of auto-enrolment.

There is the possibility that your old auto-enrolment scheme may be better than your new one but without advice how would you know? Typically, bigger pension pots benefit from economies of scale on fees and managing fewer, bigger pots would be in everyone's interests.

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