Written evidence from Aviva (APS0010)

About Aviva:

Aviva provides life insurance, general insurance, health insurance and asset management to millions of customers worldwide. We are the UK's leading insurer, serving one in every four households. We help more than five million people save for and live in retirement, and meet the pension needs of more than 20,000 companies, ranging from large multinationals to small start-ups.

Introduction:

We welcome the Work and Pensions Select Committee's "*Protecting pension savers – five years on from the Pension Freedoms: Accessing pension savings"* inquiry and we are pleased to have the opportunity to input our views.

Supporting people to access their pension savings is a hugely important issue. The introduction of pension freedoms has given people far greater choice in their retirement options but, consequently, left them to make hugely important financial decisions. It is vital that people are helped to navigate the complex choices they face. Whilst much has been done to improve the support available, both through the Money and Pensions Service (MAPS), pension providers and others, it remains the case that people are not receiving the support they need and this is leading to sub-optimal retirement decisions. To address this we believe that advice and guidance provision needs to be reformed. In particular, we support the provision of *personalised* guidance and *simplified* advice to better meet people's needs. We also believe that a wider reform of the advice boundary may be needed.

We elaborate on these points in our full response below.

Aviva's Response:

Q. 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?

1. People have access to a wide range of pension options to meet their retirement needs. The introduction of pension freedoms means that annuities are no longer the default option and this in turn has led to a significant increase in the take up of drawdown and other flexible income products. The challenge now is to ensure that customers can access the support, advice and guidance they need to help them navigate the plethora of retirement options that they face.

2. Support is also needed to help people assess their retirement objectives and ensure they are saving enough to meet them. Whilst auto-enrolment has successfully increased the numbers of people saving for their retirement, contribution rates are often too low to meet people's retirement objectives. More needs to be done to help people understand how much they need to save and encourage higher contribution rates where they are not saving enough.

3. On future trends, with the gradual reduction in DB pensions we anticipate more people in the UK will look to use their housing equity to help fund their retirement. Currently the retirement planning process does not address this upfront, but if people know they may use their property it may affect the decisions they make earlier in their retirement journey. We believe that options for using housing wealth (such as downsizing, or equity release) will increasingly be considered within the retirement planning process.

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

4. Many people are not seeking the guidance and advice they need to help them make the complex financial decisions they face. The Financial Lives Survey[1] 2020 found that of consumers with investible assets of £10,000 or more, over 50% are receiving no help at all in decision making, and only 33% are taking guidance. Many hold their assets in cash, meaning they are facing declining real-term value and not maximising the benefit they could get if their assets were invested. People that receive financial advice, by contrast, are on average £47,000 better off in the long term compared with those who do not take advice.

5. There are several barriers to advice, the most significant being the cost, combined with an over-confidence in the ability to make good financial decisions without advice, which reduces the perceived value. Nearly 400,000 more people now fall into the "affordable advice gap", which affects people who are willing to pay for advice but think it is too expensive. 5.8m people would be willing to pay for advice if it cost less. Around 20% of people would consider paying for advice, but only 6% would pay £500 or more - a typical cost for simple investment advice[2]. Efforts to reduce the cost of advice through, for example, automation, have been hindered by the fear of regulatory action and risk of future liability claims arising from mis-selling, as well as levy costs, extensive fact-finding, training and competency requirements. And efforts to tackle over-confidence – eg educating customers on the case for taking advice – are hampered by Privacy and Electronic Communications Regulations (PECR) under which advice is considered to be a service that can only be offered where there are clear marketing permissions in place.

6. As for guidance, research shows that three quarters of pension holders would consider taking guidance on how to make their savings last through retirement[3], yet take up of MAPS guidance remains low and providers often offer little more than an information-only service. We believe that a key reason for the low take up is that factual guidance, whilst helpful, is insufficient as it is too generic and does not always lead to the customer having a greater understanding of their options and choices, or the potential actions they could take that are specific to their situation. Many remain unsure what to do, procrastinate or seek advice from friends and family.

7. The FCA have recognised these issues and have requested input to understand how the regulatory framework could be changed to allow firms to better meet the needs of customers, without the fear of regulatory action and a risk of future liability claims.

8. We believe that there are three remedies; *personalised* guidance (ii) *simplified* advice and (iii) a review of the advice boundary.

9. *Personalised guidance* would ensure people receive guidance that is much more relevant to their personal circumstances. As such, we believe that a degree of personalisation using customer data in certain circumstances should be allowed, without it being classed as a 'personal recommendation' or treated as advice. Personalised guidance would allow guidance to cover savings more broadly (e.g. recognising many people don't only rely on their pension for their retirement) and allow rules of thumb such as "people like me" to help people better understand, and potentially narrow, their options. Personalised guidance should be treated as a new regulated activity and delivered only by qualified personnel. We believe personalised guidance would help people achieve much better (though not necessarily the best) outcomes as a result

[1] Financial Lives Survey, FCA 2018
[2] 'The UK advice gap', OpenMoney 2019
[3] YouGov survey on behalf of The People's Pension 03/2021

of the more tailored level of support offered, and this in turn would result in customers being better prepared for retirement. Personalised guidance should be available through a blend of digital and offline channels to allow a customer to explore their options and model outcomes using online tools.

10. *Simplified advice,* would help counter the "affordable advice gap" by providing access to advice at a lower cost than full advice. To counter the barriers identified in paragraph 5, we believe that fact finding requirements should be lowered so that only facts relevant to the advice being given are required, liability and redress should be limited to the facts gathered (though not free of liability), and it should be able to be provided through digital channels, with support from a more junior level of adviser.

11. In order to fully support customers, we feel it would be beneficial to be able to offer a full range of services from personalised guidance, simplified advice and through to full advice with the ability for the customer to move between service depending on the complexity of their needs.

12. More generally, the government should reconsider the case for amending the advice boundary to allow people to access a more tailored or personalised form of support without tipping into fully fledged (and therefore time-consuming and expensive) financial advice. The FCA's Perimeter Guidance on this is welcome but further work is needed, including possible legislative change now that the UK need not be bound by EU rules going forward.

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

13. MAPS has an important role in supporting people's financial decision making. As an independent body, MAPS can help provide people with holistic and impartial advice to help them navigate the often complex choices they face. We know that people who receive MAPS guidance value it. The challenge is how to get more customers to receive it, as take up rates remain relatively low.

14. The Financial Guidance and Claims Bill legislated to provide a 'stronger nudge' to MAPS guidance, in an effort to increase take up. We support this and have participated in trials in conjunction with MAPS and DWP to assess the most effective approach. For the nudge to be effective, our experience suggests that it should occur much earlier in the customer journey, rather than at the point when they are due to retire. This would ensure that people still have time to make a material difference to their planning if, for example, they realise that they have not saved enough to achieve their retirement objectives.

15. Pension dashboards also have a vital role to play in helping people track, understand and plan their retirement savings. We are encouraged by the recent progress of MAPS' Dashboard Delivery Project and are supporting its developmental work. To ensure its success, there are two priority issues that need to be resolved. Firstly, connectivity to the API. This will be a complex process and support for schemes to connect through the onboarding process will be vital. Secondly, it is important that the Digital ID be made available ahead of dashboard go-live so it can be tested as a beta service. Otherwise two new, untested services will be going live at the same time, which may cause problems.

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

16. Such is the extent of the advice gap, urgent action is needed to help people navigate their retirement options. We believe that both MAPS and pension providers should be able to offer an enhanced guidance service that gives a holistic view of people's retirement needs including other investments and housing wealth so that people can plan effectively.

17. Advice and guidance should be available to people throughout their retirement journey, not just at the point of retirement. Our experience of customer behaviour suggests that the passivity that exists in accumulation continues throughout the decumulation phase. Given the rapid increase in people taking drawdown products such passivity could lead to sub-optimal outcomes as people see drawdown as a one-off decision as opposed to an ongoing commitment. Providing support throughout this journey would help tackle this.

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

18. Fundamentally the objectives of auto-enrolment and investment pathways are different and so we caution against attempts to replicate its approach. People's need to save for their retirement is broadly universal across the population and so auto-enrolment into a default fund is an appropriate policy response. People's retirement objectives, by contrast, can be quite different and so a one-size fits all approach is less appropriate. Indeed, a benefit of the pensions freedoms is that is has encouraged a shift away from the one-size fits all approach (eg default annuitisation) and instead supported a range of options to meet people's diverse needs.

19. Furthermore, unlike with auto-enrolment, it is not appropriate to use the principle of inertia to nudge people into any one investment pathway. A level of engagement and explicit consent will always be required at the decumulation stage and the priority should be to support that engagement so that people make informed choices.

20. We do believe that investment pathways are welcome and can help create better outcomes for some people, particularly those who would otherwise have left residual crystallised pension funds in cash. However, to date, take up has been low. We believe this is a result of a low level of understanding and confidence about investments and retirement options. Investment pathways do little to solve this as they still require people to understand how much they can withdraw, what investment returns they can expect, what their life expectancy is. With the current guidance rules preventing providers from helping people understand their options, it is little surprise that take up is low. We believe that take up could be improved if people were able to receive personalised guidance and simplified advice as set out above.

Q. Including costs, what information do consumers need about different retirement products to make an informed choice?

21. There is clearly a balance to be struck between providing people with enough information to enable them to make informed choices and not over-burdening them with overly complex information that may actually deter them from engaging. Our experience suggests that

customers are more likely to engage if we talk about their future lifestyle and how best to achieve it, rather than complex policy options, data or graphs.

22. The key message that needs to be conveyed throughout people's savings journey is that in order to secure a comfortable retirement income, they need to start saving early and contribute more than the auto-enrolment minimum contribution levels. To give one example, if people understood that starting saving at 22 years old could result in a pension pot 75% larger than if they started saving at 32 years old (assuming identical contribution rates and a 5% investment return) then they may be more likely to make informed pension savings decisions.

23. A focus also needs to be on the value of retirement product, rather than just lowest cost. People need to be able to assess which product best meets their specific retirement objectives, not just which is the cheapest. This may include information about ESG factors, or investment returns for example. Widening the scope in this way would help customers achieve better retirement outcomes aligned to their objectives.

24. Mid-Life MOTs also have an important role to play in helping people navigate the complex choices they face. Designed for people aged between 45-60, Mid-Life MOTs, in which people are guided through their work, wealth and wellbeing needs, have been found to play an important role in helping people plan for their retirement. Aviva has been pioneering the development of Mid-Life MOTs with our staff, customers and the wider public and have found significant demand. In 2020 we reached 40,000 people with our MOT and expect to reach a similar number of 2021. Our MOT app, which guides people through 30 multiple choice questions around work, wealth and wellbeing and gives them suggested actions across each area has had over 15,000 downloads since its launch last October. We welcome the DWP's support for Mid-Life MOTs and are sharing our expertise as they develop their plans.

Q. Are pension schemes communicating options effectively to members and are there material differences between trust-based and contract-based pension schemes?

25. There are material differences in how trust-based and contract-based pension schemes communicate with members, owing largely to the different rules and regulations governing them. Efforts to improve member engagement have often had the unintended effect of adding more complexity to the system and served to further exacerbate the different approaches. For example, the FCA's Retirement Outcome Review included requirements on schemes to communicate with customers on certain aspects, yet these requirements have not been introduced for trust-based schemes.

26. Both trust-based and contract-based schemes should consider how they can improve their member communications. Consideration should not just focus on what information should be provided, but how it is provided, particularly given the advent of digital technology which significantly affects how people want to interact with their pension. The Pension Dashboard, for example, offers huge potential to boost people's engagement with their pension and help them make better retirement decisions. It is important that regulators support such innovation in their activities and make sure regulations are fit for the digital age.

27. Aviva are also developing the concept of a 'Living Pension', akin to the Living Wage, to better communicate the importance of pension saving. As part of this, we commissioned the

Resolution Foundation to develop a framework for calculating a Living Pension. Unsurprisingly the Resolution Foundation found that people are not saving enough for retirement. We are now working with the Living Wage Foundation to develop a develop an accreditation standard so that employers can become an accredited Living Pension employer, in much the same way that they can become an accredited Living Wage employer. We believe that this will help communicate the importance of pension savings, encourage employers to provide good pensions to their staff and help to boost the retirement incomes of low paid workers.

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

28. Automatic enrolment has led to the proliferation of small pots, due largely to the fact that people regularly move jobs and as a result may only save small amounts into their workplace pension. This proliferation risks people losing track of their pension pots and can lead to poor value for money.

29. Pensions dashboards have a role to play in addressing this. Dashboards will help people to keep track of their different pots by allowing them to see all their pots in one place. In time dashboards may enable people to assess which of their pensions offers the best value for money and allow them to make informed decisions about how to manage their savings.

30. However, given the low level of engagement with pensions, it is questionable whether behavioural changes by savers themselves will fully resolve the issue of small pots.

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