Written Evidence from St. James's Place (APS0013)

St. James's Place is the largest provider of financial advice in the UK with around 4,500 advisers being Appointed Representatives of our business. As a personal pension provider and manufacturer of other investment products often used to plan for retirement, in total we manage c £130bn on behalf of our c800,000 clients. As such we are well placed to understand the challenges people face in planning for, and managing their financial position in, retirement.

Our input to this call for evidence can be summarised by the following key points:

- Pension Freedoms, which have given individuals more freedom, choice and, in turn, added responsibility for managing their retirement have been rightly welcomed and should be maintained
- Having a robust plan for the whole of one's retirement is more important than the specific products selected to execute that plan. (On the whole, all the required products are already available)
- People need more help understanding what a retirement plan entails, what factors drive their own needs in retirement and how to convert their savings, including pensions, into the retirement income they want
- Ongoing regulated financial advice has been shown to deliver better outcomes for retirees. An increase in the supply of financial advice so that more people may benefit from it would result in improved outcomes.

1. 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?

1.1. Sufficient pension options already exist to meet the needs of the vast majority. However, increased engagement, capability and support would result in individuals making better use of them.

1.2. There is plenty of evidence that regulated financial advice significantly improves both financial and non-financial outcomes for clients, especially if received on an ongoing basis. International Longevity Centre (ILC) research showed that there was an average boost to wealth of £47,706 for those receiving advice compared to their peers whilst there was 50% higher average pension wealth for those taking ongoing advice[1]. This is alongside a range of non-financial benefits including improved financial literacy, confidence, reassurance and ultimately peace of mind[2].

1.3. Given these undoubted benefits, policy objectives which can deliver an increased supply of advice so that more people can benefit from it will, ultimately, be good for consumers. The success factors set out as part of the FAMR review still hold true but, in our view, are still some way from being delivered. In particular:

- *Good availability of affordable, high quality advice and guidance, which consumers at all stages of their lives are able to access to help them with their particular needs*
- *Consumers are engaged with their own financial affairs and so seeking out the advice and guidance they need.*

1.4. We think that in the future there may be a growing need for a lifelong income (ie annuities). This will partly come from an increasing proportion of retirees not having any Defined Benefits (DB) arrangements to provide long term security (many current retirees have at least some DB benefits) and partly from current retirees for whom the need for a lifelong income

[1] What it's worth - Revisiting the value of financial advice - ILCUK
[2] Peace of mind: Understanding the non-financial value of financial advice - ILCUK

may not be pressing at retirement age but, by older ages, running out of money may start to feel more real and security will become an increasing priority.

1.5. Deferred annuities (where the annuity is purchased around retirement age to start potentially many years into the future and pay income for the remaining lifetime) may provide a helpful solution to provide the required insurance against living to very old ages for many of these consumers. Unfortunately, the economics of providing this sort of long-term guarantee and the capital required to support it, make this type of product very expensive to provide and so no real market exists today.

1.6. Future needs will also include paying for long term care so clarity around what state care will look like, how it's paid for by the individual, and the options they have for supplementing the level of care, will help individuals plan for this and help firms bring new products to market to support them .

2. Are there other pension options, not currently available in the UK, which would better meet people's needs in later life?

2.1. Fundamentally people's need is for a lifelong income (available via annuities) and flexibility to access extra cash when required or desired (available via drawdown or through other savings vehicles). People, therefore, arguably have everything they need in terms of pension options. The key challenge is not one of availability of options but of support available so that people can know how to use these options to best fit their personal circumstances. This is where increased availability of advice can help.

2.2. In relation to long term care, we believe an option to pay for care with tax free withdrawals from pensions (similar to the current system for paying for childcare from gross salary) would provide encouragement to plan for care costs and financially support those prudent enough to do so, without introducing a new regime. We would be delighted to talk to you more about this proposal if that would be of interest.

3. Are there barriers to providing other pension options which meet a need and are not currently available in the UK?

3.1. Deferred annuities are not currently available as an option for retail investors in the UK. We understand that there are economic challenges (capital requirements and low interest rate environment) which make this product difficult to price attractively. We are aware, however, that this product has recently been made available in Australia.

3.2. The supply of advice is a barrier to providing the support at and throughout retirement to all the people that could benefit from it. The US and Australia both have 50% more advisers per capita than the UK (see appendix for figures). Policies aimed at increasing the supply of advice (including resolving current issues with the Financial Services Compensation Scheme levy & Professional Indemnity cover, further encouraging new and diverse talent into the industry to replace those likely to leave the industry over the next few years through retirement etc. and encouragement of further investment in growing the supply of advice) will all help deliver improved outcomes and choice for consumers.

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

4.1. Guidance is undoubtably helpful, although far more find it helps a little than say it helps a lot[3] . We believe this is because people often want help with not just what they 'can do' but what they 'should do'. There are also significant limitations of a single point in time intervention particularly given the long term nature of retirement planning and the changes the individual

[3] evaluation-of-the-impact-of-the-rdr-and-famr.pdf (fca.org.uk) Figure 2.5

will experience in their own circumstances and the wider financial environment during that time.

4.2. A retirement plan will need to change and adapt as circumstances change both in relation to external factors like market crashes and personal factors like a change in health conditions, life expectancy or the loss of a spouse. The existing guidance services simply cannot offer this level of service and it would be too expensive to extend guidance that is free at the point of access to an ongoing service. By contrast, those who have sought and received regular ongoing financial advice are likely to have a) accumulated more savings ensuring they are better prepared for retirement b) received support at the point of retirement when assessing their options and then c) ongoing and regular support throughout retirement ensuring the product remains appropriate, the withdrawal rates are sustainable and are being taken in the most tax efficient way.

4.3. It is still relatively early days since pension freedoms were introduced and experience will develop over time and teach us whether people are getting sufficient support at the point of, and during, retirement or not. FCA data[4] shows that it is the smaller pension plans where unsustainable withdrawal rates are being taken. However, this may be both expected and appropriate if the smaller pension plan is part of wider and more significant savings. It is not possible to identify these scenarios from those that would cause concern in the data available.

4.4. For our own advised clients we see very few making regular withdrawals at a level over 8%, compared to 42% doing so in the FCA data. In part this may be due to the greater prevalence of multiple pots in the wider population than amongst our clients, but the size of the difference suggests there is an element that is due to those without advice taking unsustainable rates of withdrawals from their pension assets.

4.5. The FCA data also shows that over 40,000 people fully withdrew pension pots over £30,000 in 2019/20, which seems unlikely to be the optimal course of action for anyone given the tax consequences of doing so, especially for the 15,000 that were over £50,000. This would indicate that not all those needing support to make good (not just informed) decisions are getting it.

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

5.1. Raising awareness of all the long-term factors that need to be considered in the long term use of pension benefits is the most important role for those supporting people accessing their pensions for the first time, even if this is just helping them 'know what they don't know' so they can seek further support if and where required. This will place into context the information on, and immediate implications of, the various courses of action that are available.

5.2. The pension dashboard will be very helpful in making the information accessible to individuals in preparation for discussions with MaPS. For the avoidance of doubt pensions dashboards are not currently intended to be a mechanism through which people can withdraw their pension benefits. We think this is the right approach given the potential for people to withdraw funds without sufficient planning should provide information only, it should not be a mechanism to access money. The risks of people not engaging properly and simply spending retirement funds without understanding the implications this could have on their long-term financial well-being are too great.

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[4] Retirement income market data 2019/20 | FCA

6. **Should the Money and Pensions Service offer enhanced guidance or limited advice for people making decisions about their pensions?**
   6.1. Clearly a change of regulation would be required before this can be considered, but even if the rules are changed we do not believe it is appropriate for MaPS to engage in limited advice and depending on what it entails the same may be true of enhanced guidance.
   6.2. The costs of even limited advice are significantly higher than providing guidance due to higher staff training & qualification costs, liability for errors and the process taking longer for each individual in order to gain the knowledge of their personal circumstances that are not currently required as part of guidance provision.
   6.3. Consumers for whom guidance does not provide sufficient support for them to make a decision at retirement are going to need repeated additional support throughout their retirement as circumstances change. It is not realistic to expect a free-at-the-point-of-access service to provide this support on an ongoing basis.

7. **Can the success of auto-enrolment in helping people save into pensions be replicated for people in retirement through investment pathways?**
   7.1. Auto-enrolment has been a great success, in part because it has addressed a consistent need. Namely to save more to build up a pot of savings for the long term. The homogenous nature of the problem to be solved has meant that a common approach for all auto-enrolled members works well for the vast majority.
   7.2. In retirement the problem to be solved is far from homogenous, different people want different things and at different times, secure income for life, flexible and variable income, short term lump sum withdrawals, legacies to leave behind etc
   7.3. In retirement the problem is also substantially more complex than the one addressed by auto-enrolment. Given the need to save for retirement, investing something is clearly better than investing nothing during a working life, which enables a default contribution rate to be set, but there is no equivalent in retirement. Appropriateness of withdrawal rates will need to be judged for each individual case.
   7.4. Investment pathways take no account of personal attitude to, or capacity for, risk and they cannot reflect the different time horizons and withdrawal levels of different consumers
   7.5. We would also caution against a false sense of security from assuming investment pathways have made drawdown ‘safe’ for disengaged consumers. The big risks in drawdown come from not planning and regularly reviewing how and when to take withdrawals from the fund. This can lead to the premature exhaustion of the fund, unnecessary tax paid, or taking investment risk that may not be appropriate for the individual’s circumstances. None of these risks are addressed by investment pathways and so there remains a significant risk that a consumer in the ‘best’ investment pathway is still in a fundamentally unsuitable product
   7.6. If there is one homogenous issue in retirement that is analogous to the ‘not enough people are saving’ problem in earlier years, it is that ‘not enough people have a plan’. Policies which encourage people to have a financial plan for their retirement are likely, therefore, to be beneficial.

8. **Including costs, what information do consumers need about different retirement products to make an informed choice?**
   8.1. A financially successful retirement needs to be carefully planned. Members simply taking an “ad hoc withdrawal” from their drawdown product hoping that there will be “enough for later” are potentially sleepwalking into an underfunded old age. The most important information on retirement products is therefore the benefits the type of product can bring to this plan and crucially the role the consumer needs to take in delivering those benefits. For example, whilst an annuity can simply be bought and left to deliver the benefits, a drawdown product requires careful ongoing monitoring and adjustment in line with the plan. Only once

these fundamental aspects have been explained should we move on to look at more detailed features to help clients chose between products of the same type.

8.2. Costs are only one aspect of this next level of information, other aspects will vary with product type. The long-term impact of charges can be significant and so it is important consumers understand all the charges associated with their retirement solution, even where that may include several different elements such as advice, pension product charges and underlying funds. In our view, it is important that clients understand the total charges they are paying such that they can assess these in the context of the value they receive.

8.3. While we are very supportive of transparency and making all relevant information available to members, one aspect of cost information that we have found to be unhelpful for some consumers is the level of transaction costs incurred in their underlying funds. The confusion this information causes is exacerbated by the way transaction costs are calculated (not least as they can be negative) and, therefore, have the potential to mislead consumers on the level of charges and relative merits of different funds. The Investment Association have made this point repeatedly. We would advocate that transaction costs should be published and readily available for those interested but not included in charge information.

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

9.1. Communications are much more effective when they are layered, by which we mean very short simple communication of key facts with clear signposts for where more detail can be found for those who are looking for greater engagement. This approach requires some tough decisions to be made on what important information to leave out of that first 'layer'. The recent work on a simplified pension statement is a good example of this in practice. This principle extends beyond pensions and could be better utilised in all aspects of financial services.

9.2. No matter how effective the communication is the crucial determinant of success is how the member uses this information in the light of their financial plan for retirement. If they don't have a plan then the information will not be put to best use. Pension scheme communication needs to be supported by wider efforts to increase the general level of engagement that individuals have with their retirement planning.

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

10.1. Yes, but the behavioural changes will not happen until savers are more engaged with their pensions savings and take active ownership of them. This would be another benefit of a wider campaign aimed at encouraging individuals to take responsibility for planning their own financial future.

Appendix – Adviser numbers per capita

	UK	**Australia**	**USA**
Population	66.8m[5]	25.7m[6]	330m[7]
Number of financial advisers	36,401[8]	20873[9]	263,000[10]
Advisers per thousand people	0.5	0.8	0.8

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5 https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates
6 http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/3101.0
7 https://www.census.gov/popclock/
8 The retail intermediary market 2019 | FCA (table 8)
9 https://data.gov.au/dataset/asic-financial-adviser
10 Personal Financial Advisors : Occupational Outlook Handbook: : U.S. Bureau of Labor Statistics (bls.gov)