# Written evidence from ILC UK (APS0033)

The pension saving landscape has changed considerably since the early 1990s, with many private sector final salary (DB) pension schemes gradually being closed to new entrants and replaced with money purchase (DC) pension schemes. This shift has meant individuals are bearing an increasing share of the responsibility to save for retirement, which is a much harder task now that people are spending a greater proportion of their lives in retirement.

It is therefore no surprise that many people are struggling; a number of studies have indicated that a significant proportion of savers, particularly within Generations X and Y, are not saving enough for retirement.[i] These challenges only enhance the need for individuals to be adequately informed when utilising their newly found pension freedoms post 2015, to ensure they are able to optimally decumulate their pension savings in order to maximise their income during retirement.

ILCs previous research indicates that the individuals most at risk from failing to decumulate optimally (as a result of Pension Freedoms) are those who missed out on DB schemes but have accumulated a significant sum in their DC pots (for example, around £184,000).[ii] When determining outcomes based on replacement rates, the research found that middle class retirees are more at risk than better-off pensioners with DB pensions who will have guaranteed incomes. They will also be more at risk, comparatively, than those who have earned less during their working life and can replace a share of their working age income with the state pension.

As such, if government resources are constrained, attempts to increase access to guidance and advice on decumulating retirement savings, should prioritise targeting individuals with no/insignificant DB pension savings and significant DC pension savings.

## Q4. Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?

**1. Most people aged 50 to 55 have not received guidance/advice about retirement planning – while the majority would value this**

ILCs recent report 'Slipping between the cracks', sponsored by Phoenix Group, found through a nationally representative survey of 6035 Generation X members in November 2020, that while few people in this generation have received guidance/advice about retirement planning, many say they would find it useful to receive this and do not feel confident to plan for retirement on their own.[iii] This includes Gen X members aged 50 to 55, who will likely be thinking about their decumulation options, given that Pension Freedoms, introduced in 2015, enable people to access part/or all of their pension savings at age 55.

Among Gen Xers aged 50 to 55:

- Only 19% have ever received financial advice on retirement planning and 16% have received guidance, and over 70% have not received either of these to support their retirement planning.

- 50% say they would value receiving free guidance and 18% say they would value receiving financial advice about planning for retirement, while less than half (46%) say they feel confident to plan for retirement on their own (35% say they don't feel confident, and 19% don't know).

This indicates that many people aged 50 to 55 may not be receiving the guidance and advice to make informed decisions about retirement planning, including around how they can access their pension savings.

**2. The main reason people aged 50 to 55 say they haven't received any free guidance on retirement planning is because they are not aware this is available**

The main reason that most Gen X members aged 50 to 55 haven't received free guidance is because they are unaware that this is available to them (28%), and do not know what guidance is needed (23%). The lack of awareness among this group is quite surprising since DC pension providers must inform clients who turn 50 about the options open to them, as a result of Pension Freedoms, at age 55, including the availability of free guidance from Pensions Wise to support their decumulation decisions. Our findings, that a lack of awareness is an issue, corroborate the 2019-2020 Pension Wise Service Evaluation, which found that nearly half of savers eligible for the service have never heard of it. [iv]

**3. Pensions Wise should trial offering their existing guidance service on an opt-out basis**

Given that Gen X members aged 50 to 55 (along with younger members of the cohort), are most likely to trust the government as a source of information on retirement planning when a number of options are considered (48%) and would generally prefer to receive guidance over financial advice, attempts to increase the awareness and use of existing Pension Wise services could be a particularly effective way to ensure people are more informed when accessing their pension savings.

We agree with the government's assessment that existing Pensions Wise Services are failing to reach enough people and support current trials to increase uptake of the service. We believe **Pensions Wise should trial offering their guidance service on an opt-out basis**; the success of automatic-enrolment shows how effective a default option can be, while research by Just Group found that only one in 25 would opt out of free pensions guidance if they were auto-enrolled.[v]

A default option could also support people aged 50 to 55 who are time constrained and are juggling multiple priorities; 27% of this age group say they have too many pressures and priorities to think about saving for retirement – especially among those with caring responsibilities. 23% of people aged 50 to 55 currently provide care/or expect to provide care in the next 5 years and 29% are a parent or a guardian of someone aged 18 or under. As people are having children later and the demand for informal care increases[vi] – the proportion of people aged 50 to 55 with caring responsibilities will likely rise. This means simpler default approaches may be increasingly necessary to attract future cohorts.

**4. Pensions Wise should utilise a more targeted approach to attract minority groups to their guidance services**

There may also need to be a more targeted approach to reach minority groups. We find that this lack of awareness is highest among women compared to men (31% vs 26%) and people who don't have British Nationality compared to those who do (45% vs 28%). Yet, at the same time, our evidence indicates that these groups would value and could experience the greatest benefits from accessing this service. Gen X members aged 50 to 55 in these groups are more likely to say they:

- would find it useful to receive guidance on retirement planning;
- don't feel confident about planning for retirement alone;
- 'don't know' what is roughly recommended to save to achieve an adequate income in retirement, and;
- have not received guidance about retirement.

Evaluations of the Pensions Wise Service by demographics also underscore the need to increase use of the service by minority groups; use of the service is disproportionately lower among women than men, and non-whites are under-represented relative to their population share.[vii]

**5. The main reason most people aged 50 to 55 have not received financial advice on retirement planning is they perceive this to be too expensive**

Financial advice can help people to understand what they need to save to meet their retirement objectives - which can help people to decide when and how to start accessing their pension savings, but also enable people to explore their decumulation options specifically. ILC's previous research finds that taking financial advice doesn't only incur a positive boost to recipient's retirement incomes,[viii] but taking this (including at ages 55 to 74, mainly to consider decumulation options) can also provide psychological benefits – by improving financial literacy, confidence, and delivering greater control, reassurance and peace of mind.[ix]

Gen Xers aged 50 to 55 cite cost as the main reason for not accessing paid-for financial advice – where around a third said that they haven't received financial advice because "they can't afford it". Other reasons cited by 23% of this group include "not trusting financial advisers" and "not considering it."

**6. The government should review employer incentives to offer financial advice in the workplace**

One way to increase access to financial advice could be for employers to subsidise an initial consultation with a financial adviser as an employee benefit: something that a number of employers already do. This was the most popular of the financial-advice related initiatives selected by Gen X employees aged 50 to 55 to increase awareness around retirement planning: 26% selected it. While a growing number of employers offer financial advice as part of their employee benefits,[x] most don't, and among those that don't, the majority don't plan to do so in the future.[xi] This is in spite of the fact that the Government already offers limited tax-relief incentives on employer-related financial advice,[xii] as well as the opportunity for most individuals with a DC pension scheme to take money from their pension to pay for financial advice (up to £1,500 a year).[xiii]

As such, we believe that it may be necessary **for the government to consider better ways to incentivise employers to offer financial advice sessions for employees aged 40 and over**. This could include group financial advice sessions, which may be cheaper for the employer.

**7. The government should build on existing work to develop cheaper, more accessible, 'robo-advice' tools**

A final option being developed by the financial advice industry, with support from the Financial Conduct Authority (FCA), is to develop cheaper, more accessible, 'robo-advice' tools. While only 13% of our Gen Xers aged 50 to 55 said that cheaper automated financial advice on a digital device would help them plan for retirement – who appear to prefer face to face advice options, this rose to 17% of Gen Xers aged 40-44, and 21% of younger Gen Xers who "have too many priorities to think about retirement". This indicates that robo-advice may be more popular among those that are time-pressed and dealing with other pressures and priorities, who may benefit from its accessibility. Such an option may therefore be relatively popular among future 50 to 55 year olds, who are will eventually need to make decisions around accessing their pension savings.

It is also questionable whether it is financial viable for the advice sector to provide advice to those with moderate sized pension pots and the capability of the advice industry to be able to do this on a large scale – in order to close the financial advice gap.[xiv] In order to serve the mass market, cheaper, online or over-the-phone solutions may be needed – particularly for consumers whose financial circumstances may be relatively simple and can therefore follow a carefully designed decision-tree type process. We recommend that the financial services industry, the Government and regulators consider how this can be delivered in order to close the advice gap which threatens to exacerbate many of the risks associated with pension freedoms.

## Q5. What role should the Money and Pensions Service have in supporting people accessing their pensions for the first time, including through pension dashboards?

**1.The Money and Pensions Service should eventually enable a user of the pensions dashboard to translate their expected savings levels in retirement into ball-park living standards**

Our findings reveal that Gen Xers aged 50 to 55 (along with all Gen Xers) especially want to know broadly how much they need to save to meet their retirement objectives (26%), and how to keep track of multiple pension pots (19%).

Both of these points are important for individuals who are making decisions around whether and how to access their pension savings, given they can help someone to determine how long they need to work for, before they start drawing down on their pension savings, to ensure their retirement income is broadly sufficient to meet their objectives.

The pensions dashboard should enable individuals to keep track of multiple pension pots and understand their pension savings, and expected pension savings in retirement.[xv] This was the most popular suggestion among Gen Xers aged 50 to 55 out of a range of policy suggestions to increase people's awareness with retirement planning - where 39% of this group selected this.

It is more difficult, however, to know how much to save to meet particular objectives in retirement. That said, ongoing financial advice sessions can help to determine this, while ball-park recommendations using estimates that roughly translate pension savings into retirement living standards are available from the Pensions and Lifetime Savings association and the Institute of Actuaries.[xvi] However, we found a lack of awareness around these 'rules of thumb' among Gen Xers we surveyed. Only 37% of all Gen Xers and 46% of those aged 50 to 55 knew that pension holders are generally recommended to save 10% of their earnings or more to achieve an adequate income in retirement (although experts differ on the precise level).[xvii]

One solution to this issue, could be for the Money and Pensions Service to **eventually enable a user of the pensions dashboard to translate their expected savings levels in retirement into ball-park living standards** – to give users a better sense of what their pension savings can deliver. A third of people aged 50 to 55 said that "simpler 'rules of thumb', to know how much you need to save to achieve your retirement goals" would increase their awareness around retirement planning. This was the second most popular option among this age group out of a range of options given.

**2. The government should require employers to give new and newly-promoted employees information about pension contributions and how they affect living standards in later life**

Our findings also indicate that Gen Xers are more likely to want to receive guidance on retirement planning when they are looking for a new job/have moved job. As such, there may be an opportunity for the government **to require employers to give new and newly-promoted employees information about pension contributions and how they affect living standards in later life -** created by the Money and Pensions service, which shows this information in a clear and eye-catching way. Although this would mostly support individuals to save for retirement, this could also support people to gain a sense of what lifestyle they may be able to lead if they retire at the State Pension Age – based on their pension contributions, and in so doing, support their decisions around when to decumulate.

There may also be scope for Pensions Wise to increase the awareness and use of its existing services as noted in the response to Q4.

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[i] ILC-SLIPPING-BETWEEN-THE-CRACKS-3rd-March-Final.pdf (ilcuk.org.uk); 2019-11-07 Generation veXed: solving the retirement puzzle | Pensions Policy Institute

[ii] Middle classes will be hit hardest if they blow their pension pots - Citywire

[iii] ILC-SLIPPING-BETWEEN-THE-CRACKS-3rd-March-Final.pdf (ilcuk.org.uk)

[iv] International Investment. (2020). Nearly half of pension savers eligible for Pension Wise 'have never heard of it': research. Available at: https://www.internationalinvestment.net/ news/4021520/nearly-half-pension-savers-eligible-pension-wise-heard-research; Ipsos Mori. (2020). Pension Wise service evaluation: research with 2019/20 customers. Available at: https://www.ipsos.com/ipsos-mori/en-uk/pension-wise-service-evaluationresearch-201920-customers

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[vi] ILC-SLIPPING-BETWEEN-THE-CRACKS-3rd-March-Final.pdf (ilcuk.org.uk)

[vii] Pension Wise service evaluation 2019/20 (moneyandpensionsservice.org.uk)

[viii] The Value of Financial Advice - ILCUK; What it's worth - Revisiting the value of financial advice - ILCUK

[ix] ILC-Peace-of-mind-The-non-financial-value-of-advice.pdf (ilcuk.org.uk)

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[xi] FT Adviser. (2019). Uptick in employers offering advice. Available at: FTAdviser.com; Employee Benefits. (2005.) The benefits of providing financial advice for staff. Available at: employeebenefits.co.uk
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[xiii] GOV.UK. Plan your retirement income: Get help. Available at: GOV.UK (www.gov.uk)
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[xv] The Pensions Dashboard | Savings and Retirement | ABI
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[xvii] Institute and Faculty of Actuaries. (2020). Savings goals for retirement: policy briefing. Available at: Saving Goals for Retirement V08.pdf (actuaries.org.uk); Institute and Faculty of Actuaries. (2020). Savings goals for retirement series Paper 2: Moving between goals. Available at: Paper 2 - Moving between goals.pdf (actuaries.org.uk); Funds Insider. (2016). Can young people really afford to save 15% of their wages? Available at: https://citywire.co.uk/funds-insider/news/can-young-peoplereally-afford-to-save-15-of-their-wages/a887654

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