

## **Written evidence from the Phoenix Group (APS0057)**

*On behalf of Phoenix I would like to thank the Work and Pensions Select Committee for their interest in this area.*

*I firmly believe that the need for greater access to pensions guidance for customers is one of the biggest challenges facing our sector. Pensions Freedoms reforms mean that customers are now having to take incredibly complex decisions about their retirement, but more than 90% of the population are doing this without accessing advice. These decisions are undoubtedly among the most important financial decisions people will make in their lifetime. How people manage their pensions is often the difference between security and vulnerability in retirement.*

*I urge the committee to consider a range of solutions which could ensure consumers receive relevant, useful, contextualised, common-sense guidance from a range of sources when making significant decisions about their pension. This would help consumers make better choices when assessing their retirement options and would help to ensure greater security in retirement. This is an issue about which I'm personally passionate. It's also one of great importance to all of us at Phoenix, where our purpose is to help people secure a life of possibilities.*

*My team and I are available to support the committee with this work and I would greatly welcome the opportunity to give oral evidence to discuss this important issue in greater depth.*

### **About Phoenix Group**

Phoenix Group is the UK's largest long-term savings and retirement business with c.14 million customers and £338 billion of assets under administration across both our Heritage and Open businesses. Our Heritage business, where we are the market-leader, is focused on the safe and efficient management of insurance policies. Our Open business comprises products that are actively marketed to new and existing customers.

## Advice vs information and guidance

We have worked with independent regulatory experts to create this summary of the difference between advice and information and guidance – we’ve found it useful in producing our submission, and so wanted to share it with you.

	Advice	Information (and guidance)
<b>Description and key characteristics</b>	<p>Advice is defined within the FCA handbook using a number of key characteristics:</p> <ul style="list-style-type: none"> <li>• <b>Specific investment:</b> Advice must relate to the merits of buying, selling or holding a specific investment (noting an “investment” can include a pension product or a specific fund) and must be given to the customer in their capacity as a potential investor.</li> <li>• <b>Value judgement/persuasion:</b> Advice includes an expression of the value of a particular decision to the customer. Also, any element of persuasion is likely to constitute a value judgement.</li> <li>• <b>Personal circumstances:</b> The information provided is based on the personal circumstances of the customer, and therefore not available and not suitable to the general public.</li> <li>• <b>Recommendation:</b> The advice includes a recommendation to buy, sell or hold a specific investment, leaving the customer with a specific action. This recommendation does not need to be explicit and can be implied, even if preceded by “I am not giving you advice, but...”.</li> <li>• <b>Limiting of options:</b> Filtering of the options that the customer can take, where this is based on subjective judgement and not purely factual information, is likely to constitute advice.</li> </ul>	<p>Information is generally seen as the statement of facts and figures, which may include charges, product features and past performance data (amongst other data). Simply giving information without making a value judgement on its relevance to a customer’s decision-making may not be considered advice.</p> <p>Guidance is not explicitly defined or separate from information in the current regulatory environment. As a result, a reasonable interpretation is that guidance can include the tailoring of factual information provided to customers based on their personal circumstances (if it does not include a value judgement), such that it is not designed to persuade customers to a single course of action and still allows the customer to make their own decisions (and hence, does not become advice). Guidance may:</p> <ul style="list-style-type: none"> <li>• Include the provision of generic statements where this does not meet the full definition of advice in the FCA handbook (i.e. is not related to a specific customer or investment).</li> <li>• Include or omit specific information based on fact finding with the customer and can include an explanation of why certain features may/may not be relevant to the customers circumstance or objectives.</li> </ul>

	Advice	Information (and guidance)
	<ul style="list-style-type: none"> <li>Advice can sometimes be a function of the enquiry of the customer: The response to a customer query is more likely to be deemed as advice if the customer asks for a recommendation.</li> </ul>	
<b>How is the boundary between advice and information is tested</b>	<p>The current regulatory position allows retrospective challenge against firms if their own interpretation of the advice/information boundary is later questioned by the regulator. This is because the advice/information boundary can be tested by considering:</p> <ul style="list-style-type: none"> <li>Whether the customer may believe that they have received advice; and/or</li> <li>Whether a impartial third party who understands the regulatory environment, context, information exchanged between parties and the timing of communications could reasonable judge that the information provided could be regulated advice.</li> </ul>	
<b>Example: tax efficient strategies</b>	<p>"You may want to achieve a tax efficient pension withdrawal strategy. To achieve this, you should take £x in year one, followed by £y in each of the following three years."</p>	<p>Information: "You should consider the impact of taxes on the money you will receive in retirement. You may wish to take tax advice."</p> <p>Guidance: "For pension assets of over £X,000 it can be more tax efficient to withdraw money over a few years rather than all in one go, to avoid higher income tax brackets."</p>
<b>Example: Income drawdown</b>	<p>"I recommend that you use income drawdown option A/product A based on factors ABC (e.g. its lower charging environment)."</p>	<p>Information: "You should consider the impact of charges on your assets."</p> <p>Guidance: "For customers with assets under £x,000, it's especially important to consider the impact of annual charges over time."</p>

## Phoenix summary response

### *Introduction*

- For most people, deciding how to invest, manage, and access their pension is the most important long-term financial choice they will make. It can be the difference between security and vulnerability in retirement.
- In the UK, despite the important progress made in recent years, particularly through auto-enrolment, many people still don't save sufficiently for retirement. Furthermore, we live in an ageing society where increased longevity requires increased rates of saving. At the same time, we have seen a transfer from DB to DC schemes, with DC workplace schemes exceeding DB enrolment for the first time in 2014/15.
- Subsequently, nearly two thirds of retirees risk running out of savings in retirement, requiring them to rely on the state pension<sup>i</sup>. These trends have placed particular pressure on 'Gen Xers' as identified in a report by the International Longevity Centre and Phoenix. Nearly one in three (30%) risk reaching retirement with inadequate incomes.<sup>ii</sup>

### *Pensions freedoms*

- Pensions Freedoms enacted five years ago have given DC pension savers much more freedom and flexibility in retirement, allowing them to make more choices about their retirement, often deciding whether to take a lump sum, go into drawdown, or buy an annuity. These freedoms, however, have been introduced without the requisite changes to regulation which would enable customers to receive advice and guidance about the implications of the freedoms they enjoy.
- There is evidence to suggest that this lack of advice and guidance meant customers were taking short-sighted decisions during the Covid-19 crisis which had a detrimental impact on their personal finances. The number of people accessing their pension as a flexible source of income increased by 56% between April and September 2020, while the number withdrawing all of their pension in one lump sum increased by 94%<sup>iii</sup>. Around one in ten adults saving for a pension stopped or paused contributions in 2020<sup>iv</sup>.
- Our concern is that many people will have made these decisions without having taken advice or guidance and thus risked failing to understand the significant long-term consequences. For example, analysis last year of the Australian government's early release of super scheme found that 38% of people who accessed superannuation funds during Covid as part of the scheme had seen no drop in their income during the crisis. It also found that people used the money to increase their spending, not simply maintain it, and that almost 2/3<sup>rds</sup> of additional spend was on discretionary items such as clothing, furniture, restaurants and alcohol.<sup>v</sup>

### *The current complexity of pensions and retirement savings*

- In addition to these long-term trends and changes to pensions freedoms, there are of course a wide variety of other methods of saving for retirement for consumers to consider. The result of all these factors is that savers are making more complex decisions about their future than ever before. They perceive pensions to be complex, their life circumstances are complex, and their retirement outlook is complex.
- A lack of understanding of the wide ranging and complex products available can make it difficult for consumers to base their decisions on anything but price; a mistake, given the

wide range of other important factors that should go into a decision on whether a particular product is appropriate for a given individual. For example:

- Products will carry different levels of risk, which can sometimes be difficult to understand.
  - Some product providers will come with superior procedures in place to protect vulnerable consumers including scam protections.
  - Some product providers will offer ongoing communication and engagement; others won't.
- These dynamics are evidenced by the 'Worry-Action gap'. In 2016, research found that 44% of people in the UK agreed with "I am worried I won't have enough money when I retire," but only 35% agreed with "I am taking steps now to ensure I have an adequate retirement income."<sup>vi</sup>
  - As we consider the impact of pensions freedoms and subsequent public policy implications, we must recognise this complexity and focus on how we can best support people through this process.

#### *The guidance and advice gap*

- Within this incredibly complex landscape, consumers are able to access significant amounts of useful information.
- Unfortunately, most people can't afford to pay for the valuable advice provided by IFAs under current regulations, and IFAs will usually only give advice to those with assets above a certain threshold.
- Research from the FCA suggests that approximately only 8% of the population receive formal financial advice each year<sup>vii</sup>.
- Guidance remains a largely undefined service with ambiguity about the advice-guidance boundary. However, the restrictions around 'Personal Recommendations' mean that guidance isn't suited to supporting consumers with their complex decisions. The ambiguity around the guidance definition makes it harder to quantify how many people access guidance, however analysis of FCA data by the ABI suggests that nearly half of people who accessed their pension pots 2018/19 did so without regulated advice or guidance.<sup>viii</sup>
- With savers making incredibly complex, far reaching, often irreversible decisions which will impact them throughout retirement, they need both information and personalised, contextualised advice or guidance – reflecting their personal circumstances - which can support them to make the right decisions about their retirement. This guidance gap will undoubtedly lead to significant unintended consequences and worse outcomes for savers and the economy.

#### *Why increased nudges to Pension Wise will not be enough to resolve the issue*

- The Money and Pensions Service (MaPS) helps people accessing their pensions for the first time and provides a wealth of information and guidance.
- It is a recognised issue that too many people are unaware that they can access this information. More crucially, too many people are hesitant to seek out or engage with information about retirement planning because they're intimidated by the importance of making the right decision and the complexity of the range of options available to them. In response to this challenge, increased nudges to Pension Wise and other services

mandated by the FCA under the Financial Services and Guidance Act 2018, and subject to a recently launched consultation, are welcome.

- Increased nudges to Pension Wise, however, are not a panacea and will not be sufficient to resolve the guidance gap issue. Although engagement with Pension Wise has increased, uptake remains worryingly low; analysis of FCA figures has shown that only 94,274 of the 434,407 defined contribution pensions first accessed in 2019/20 – just over one in five (22%) – without regulated advice were taken after using the Pension Wise guidance service.<sup>ix</sup>
- More significantly, however, Pension Wise is also constrained in the advice and guidance it can give to consumers. It can provide information, but many people engaging with this information are ill-equipped to identify what's relevant to their personal circumstances. Pension Wise cannot provide the holistic view that is required to deal with the complexity facing consumers today.

#### *Developing a solution which can ensure savers get personalised, contextualised guidance*

- We recognise this is a hugely complex, technical policy area. All stakeholders want to achieve the same outcome – to help consumers ensure a more secure retirement. However, the current system isn't working. And the scale of the problem means that increased nudges to MaPS won't be enough.
- We need to start and finish with the customer at the centre of everything we do. We need regulators, government and providers to develop and design solutions which address the human complexity at the heart of this issue. The cost of getting this wrong is a human one. More people will be disengaged with their pensions and savings. More people will run out of money in retirement. And more people will miss out on life opportunities they could have enjoyed with increased support.
- We believe the best solution for customers will be centered around more personalised support to increase engagement. For customers who can't or don't want to pay for valuable advice, we must provide the best guidance and support we can, to support the right outcomes. To do this, the FCA and the Government need to work to provide greater clarity on the line between guidance and advice.
- This can provide a vital route to a range of providers being able to provide broader guidance or simplified advice which enables much more of the population to receive the kind of contextualised, personalised, support required to address the complex decisions they are facing.
- This simplified advice will need to be designed and priced in a way that will be easy-to-use and provide value-for-money for consumers, while also being commercially sensible. Technology will play a key role in achieving this; but so will the regulatory framework.
- Phoenix therefore warmly welcomes the Work and Pensions Select Committee's inquiry. We are fully committed to working with the Committee to initiate a long-term, meaningful conversation with government, parliament, consumer groups and industry as to how we can ensure that people get the support they need to ensure savers are more engaged with their pension plans.
- This will help to reduce the guidance gap, ensuring more people save more, and enjoy a sustainable and secure retirement and delivering better health, economic and life outcomes for the UK.

## **Response to individual questions**

### **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?**

- We agree with the ABI's response on the trends impacting consumer needs.
- Pensions freedoms have helped to ensure that more people have more options when considering their retirement. In particular, they have opened up the option of an annuity, drawdown or a combination of both to DC scheme members.
- As set out above, while the range of options available to customers is welcome, it means that savers are making increasingly complex decisions about their retirement. Customers will often need to factor other savings and ISAs, investments in property and employment income in addition to differences in pension scheme types when making decisions about their retirement.
- To help ensure savers are able to make the right decisions as they approach retirement, we would encourage the committee to reflect on whether the current arrangements for advice and guidance enable people to get the holistic support they need across this wide range of product types.

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

- We defer to the ABI's response on the limited options available outside the UK market.
- As a business, Phoenix is committed to delivering product innovation to the benefit of consumers. We want to explore products, services and guidance propositions which can enable savers to become more engaged with their pensions over the long term.

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

- We would welcome increased engagement with regulators which can enable providers to work with savers to help them better understand their pension investments in the context of their wider circumstances.
- The biggest barrier to people securing a sustainable retirement is a lack of engagement with their pensions and savings throughout their working lives and at the point of decumulation. People's needs are increasingly complex, requiring increasingly complex products. More complex products require more detailed and contextualised explanation, which cannot be provided under the current guidelines. We want to help more savers develop a plan for their retirement and make informed decisions about how to use their savings in retirement.

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

- The current regulations do not provide enough scope for the majority of customers to receive sufficient advice and guidance to make informed decisions about their retirement.
- As we have set out in detail above, pensions are complex, with savers often currently making significant, long-term, often irreversible decisions without advice or guidance.
- The current situation where around 90% of the population take crucial decisions about their retirement without advice or personalised guidance is inadequate and leads to significantly worse outcomes for those savers and our society as a whole.
- We fully support the ABI's comments about the value of advice.

- Research from the International Longevity Council found that a customer receiving professional financial advice between 2001 and 2006 resulted in a total boost to wealth (in pensions and financial assets) of £47,706 in 2014/16.<sup>x</sup>
- The same report found that the benefits of financial advice are potentially greater for those termed “just getting by” than for those considered “affluent”: the former would have seen a 24% boost to their pension wealth compared to 11% for more affluent groups (those most likely to be advised).
- As set out above, most people can't afford to pay for the valuable advice provided by IFAs under current regulations, and IFAs will usually only give advice to those with assets above a certain threshold. As a result, approximately only 8% of the population receive formal financial advice each year<sup>xi</sup>.
- Phoenix believe that all savers need personalised, contextualised advice or guidance – reflecting their personal circumstances - which can support them to make the right decisions about their retirement. As made clear above, this is not currently provided by Pension Wise, which is also constrained in the advice and guidance it can give to consumers.
- This advice or guidance also needs to be given at a time at which it could make a difference to consumers. Support earlier in life gives more people more options. Personalised help makes this support more likely to result in action being taken. Using Pension Wise at the point of decumulation is not sufficient.
- We firmly believe that the current arrangements are resulting in significant numbers of savers running out of money in retirement, being forced to rely on the state pension, because they haven't had the advice or guidance which can enable them to create a plan for a sustainable retirement. This outcome leads to a significant human cost for the people involved, but also has a broader cost as more people will rely on state support.

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

- We fully support the ABI's comments around the vital role MaPS play in supporting people when accessing their pensions, and more widely throughout their savings journey.
- We would support MaPS being able to play an increased role in supporting people through their pensions dashboards.
- As noted by the ABI and others, take up of Pension Wise appointments remain low. Proposals for increased nudges to Pension Wise are a positive step but are not a solution to the overall problem. MaPS is not able to support customers sufficiently due to the framework in which it operates.
- As we have set out above, Pension Wise is also constrained in the advice and guidance it can give to consumers. It can provide information, but many people engaging with this information are ill-equipped to identify what's relevant to their personal circumstances. Pension Wise cannot provide the holistic view that is required to deal with the complexity facing consumers today.
- It is vital that we do not see support from MaPS and Pension Wise as a silver bullet. Their support is one facet of the propositions customers need, but customers also need a better framework for support, where providers and MaPS can work together to support customers.

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

- We fully support the ABI's response to this question.
- If we are to drastically increase people's engagement with their pensions, enabling them to plan and save for a sustainable retirement, we need both MaPS and pension providers to be able to offer enhanced guidance or limited advice which can help to support the majority of people who currently don't access advice or guidance.
- We would urge the committee to explore this issue in greater detail with the regulator to help better define and expand the advice boundary so that those organisations who have the most engagement with customers can help them plan for retirement. This can help to ensure that people get the advice and guidance they need.

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

- Auto-enrolment has been hugely successful in enabling more than 10 million people to save at an earlier stage. However, as highlighted in the ABI's response, there are significant differences between saving and retirement. Auto-enrolment saving works on the principle of inertia whereas active decisions are required in retirement. These decisions are complex and have far reaching implications. Retirement is a complex process and it requires people to view their options holistically.
- While expanded investment pathways are welcome, they inevitably only provide a limited fixed range of options. They also fail to take account of a customers' wider circumstances, including other savings, investments, ISAs or property. Instead, we should be focusing on how we can enable people to make better, more informed decisions about their retirement, by increasing engagement and understanding.

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

- As we have highlighted above, pensions are complex and there are many considerations consumers need to consider to make an informed choice. The most important factor is a person's personal circumstances. This is the most important variable in the decisions they will make.
- This factor is the biggest challenge when considering the current regulations. For the 90% of customers who only have access to non-personalised information, they are unlikely to be able to make an informed choice about their future.
- Considering other variables beyond cost, it is vital that customers are able to understand and compare a broad range of metrics. Cost may present the easiest side by side comparison between providers, but customers also need to consider level of service, risk and the products which are being invested in (for example their ESG rating). None of these are easy to understand and compare.
- Customers need to also consider the depth of commitment and investment providers are making in the services which will underpin a customer's experience, for example scam protection, customer service facilities and support for vulnerable customers.

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

- We believe there are differences between trust-based and vs contract-based schemes as set out by the PLSA and others. Levels of communication will inevitably vary across the industry, but on the whole we believe schemes are communicating effectively with members. We aim to provide consistent outcomes for customers regardless of what scheme structure they are in.
- As we have set out through this submission, we believe schemes could better serve customers if they were able to have deeper, longer, more meaningful, more personalised interactions with a customer over the lifetime of someone’s pension.

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

- As set out by the ABI, auto-enrolment has enabled 10 million more people to save for their retirement. This in turn has led to the growth in the number of small pots, presenting an additional complexity to managing a person’s savings in retirement. Research from the ABI suggests that up to £20bn of savings could be lost in small pots.<sup>xii</sup>

We do not believe that the small pots issues can be addressed by encouraging behavioural changes alone.

- We believe the Government’s plans for the pension dashboard form part of the solution and we would urge the government to push ahead at maximum speed. In addition we are committed to supporting the investigations by the various industry working groups to ensure all potential solutions are fully considered in the interim report due to DWP in summer 2021.
- Customers with small pots would also benefit significantly from expanded guidance or advice, enabling them to have more engagement with the pensions.
- It is the combination of these changes that will provide significant benefits to those customers but also the UK economy as a whole.

### **May 2021**

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<sup>i</sup> Standard Life Aberdeen, [UK retirees at risk of running pension pots dry](#), April 2021

<sup>ii</sup> ILC, [Slipping between the cracks](#), March 2021

<sup>iii</sup> ABI, [Big jump in pension savers accessing pots after pressing pause in the first lockdown](#), November 2020

<sup>iv</sup> Aviva, [37% of savers have taken action relating to their pension in lockdown](#), July 2020

<sup>v</sup> Illion, [New real time data: what has happened to all that Super?](#), August 2020

<sup>vi</sup> Deloitte, Aviva, [Mind The Gap](#), September 2016

<sup>vii</sup> FCA, [FCA publishes evaluation of its work on the financial advice market](#), December 2020

<sup>viii</sup> ABI, [Five years on - reforms are needed to ensure the success of the pension freedoms revolution](#), February 2020

<sup>ix</sup> Just Group, [Only one in five pensions accessed by unadvised retirement savers use guidance, FCA figures reveal](#), April 2021

<sup>x</sup> ILC, [What’s it worth – Revisiting the value of financial advice](#), November 2019

<sup>xi</sup> FCA, [FCA publishes evaluation of its work on the financial advice market](#), December 2020

<sup>xii</sup> ABI, [£19.4 billion of pension pots unclaimed – just because of house moves](#), May 2020