Written evidence from the Personal Investment Management and Financial Advice Association (PIMFA) (APS0060)

Thank you for giving us the opportunity to provide evidence to the next stage of your inquiry. Whilst we believe that there is significant merit in exploring the various impacts on pension freedoms along the lines the Committee has agreed, it is this particular area which, we believe, should pervade any discussion about the merits and challenges of pension freedoms.

It is ultimately our view that it is difficult to assess the success or otherwise of pension freedoms in totality due to the varying experiences different demographics experience. The introduction of pension freedoms placed unique demands on UK savers in that overnight, savers were given total control of their financial affairs having previously largely outsourced this to insurance companies through the provision of the annuity market. This change placed unique responsibility on savers to navigate extremely complex decisions which a large proportion of the UK population are underprepared and at times unable to manage.

Whilst our initial concerns around freedom and choice centred on the sustainability of income for savers who faced the not insubstantial risk of running out of money, evidence[1] suggests that in the vast majority of cases this has not been the case. Rather, the challenges of affording savers total freedom and choice, have manifested themselves in savers choosing to do nothing at all. In its Retirement Outcomes Review, the FCA found that 33% of non-advised savers found themselves in cash or cash like arrangements having either been defaulted there or chosen the path of least resistance[2].

There have been clear and obvious moves on the part of the FCA to address this although, we retain some concerns around the efficacy of pathways solutions as well as any approach which relies on signposting given the evidence we have that these tend to be ignored. Ultimately, while it is right that moves have been made to protect consumers against decision paralysis, it is our view that not enough focus has been given to the support of individuals in making retirement decisions. The solutions which have been put in place, whilst predicated on consumer protection, will only ever deliver outcomes for consumers which are good enough rather than the best possible outcome.

This speaks to the limitations of the focus of regulatory and policy intervention to date in making a success of freedom and choice. Products designed to be suitable for a broad demographic will only ever take account of individual needs in generality – a principle which works extremely well during the accumulation phase. However, individual needs in retirement are generally far more unique and it is at this point that individual decisions, where possible, should not be outsourced to defaults. It is therefore disappointing that to date very little focus from government and the Regulator has been put on supporting the decision making process. It is our belief that consumers who have access to regulated financial advice will receive substantially better outcomes in retirement than those that do not.[3]

---

[1] FCA Retirement Outcomes Review Interim Report, 2017

[2] Whilst out of scope of the inquiry, one of the original drivers behind the introduction of freedom and choice was a poor functioning annuity market which, in the vast majority of cases, individuals did not take full advantage of. In the majority of cases, individuals did not use the Open Market Option to find the best option available to them and, as a result, defaulted with their existing provider. Whilst the introduction of freedom of choice was supposed to combat this, we are concerned that individual inertia in combination with the introduction of investment pathways has, in effect, recreated this demand side failure previously seen in the annuity market

[3] This is borne out by research undertaken by the International Longevity Centre showing that individuals across all

This belief is ultimately a recognition of the government's own analysis of the potential challenges freedom and choice would pose in 2014 – that people needed the guarantee of advice, latterly downgraded to guidance. Whilst numbers are improving, the evidence that we have so far suggests that in the main, not enough people have been accessing professionalised support to help them navigate the retirement landscape. Government initiatives to change this through initiatives such as the Financial Advice Market Review were unable to progress due to our relationship with the European Union.

As we have set out in previous responses to the Committee in its various inquiries on pension freedoms, we are increasingly concerned that a two tier system of retirement is emerging. On the one hand, you have a growing cohort of consumers who are well served by PIMFA members – financial planners and wealth management firms. These consumers are able to adequately navigate many of the unique demands placed upon them by freedom and choice. On the other hand, the vast majority of savers remain unsupported or reliant on guidance services which, whilst welcome and useful, cannot realistically adequately prepare an individual to make financial decisions which could have ramifications for over 30 years.

Whilst we believe that the best outcome would be for more consumers to be able to call on the services of PIMFA members, it is also the case that this is not necessarily realistic in the short term. However there are short term legislative options that the Government could take to boost participation in financial advice as well as create a better, more targeted financial guidance system.

Given that we are no longer restrained by our relationship with Europe, we believe that now is the time for Government and the Regulator to review many of the structures which are, in our view, barriers to people receiving the support they need at the point of retirement[4]. In brief, we believe that:

- The current distinction between advice and guidance is not clear enough leading firms who could potentially offer valuable guidance or simplified advice solutions unclear of the regulatory expectations placed upon them. Given that the UK has now left the European Union, it should be incumbent upon the government and the **regulator to review the definition of advice and guidance and provide a clear distinction between the two**.
- In doing so, we believe that the regulator could and should **develop a clear regulatory framework for the development of simplified advice propositions**. We strongly believe that there is appetite among existing providers as well as new entrants to offer pared down solutions which will enable them to access low cost and simplified savings and investment propositions.

Doing so will provide enough flexibility for the government and regulator to **create an advice ladder that works for all.** There is scope, for example, within any review to allow for guidance providers such as the Money and Pensions Service to provide tailored guidance solutions which may enable consumers who traditionally would benefit from guidance to understand the options available to them more comprehensively than is currently the case.

In addition to this, we consider that more simplified advice structures which could result in product recommendations (within and limited and defined regulatory structure) would be particularly useful for consumers as they move through retirement and potentially have more complex needs and decisions to

---

demographics receive substantially better financial outcomes when taking financial advice in comparison to those with similar levels of assets who do not.

[4] PIMFA, *The Future of Advice* 2021

make – e.g. social care. This speaks to an often under-discussed aspect of pension freedoms: whilst the focus has been on decisions made at the point of retirement, individual circumstances change throughout retirement and should, as a result, not be solely confined to a singular decision.

It is for this reason that we would urge the Committee to change the focus of policy and evaluation of freedom and choice going forward. As we set out above, the focus on products and protections are understandable given the significant change and demands placed on consumers as a result of freedom and choice. However, we do not believe that this is sustainable for the long term – policy should be focused towards achieving the best outcome, not protecting against the worst. For this to be achievable, consumers need to be provided with a variety of support services from government sponsored guidance through to holistic financial planning.

We would be very happy to discuss this further with the Committee should you wish.

Best regards,

Simon Harrington, PIMFA

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 the future**

   Whilst we believe that there are a number of challenges associated to pension freedoms, our concern centres on the ability of consumers to exercise their freedoms rather than availability of choice. To that end, we do not believe that the Committee should be overly concerned about the range of pension options available on the market rather, the ability of savers to choose and be confident in the decisions that they have made.

   The demand side of the retirement market has been traditionally weak and this weakness pre-dates the introduction of pension freedoms. Prior to the introduction of pension freedoms, 60% of consumers stayed with their existing provider to purchase an annuity. This option represented the path of least resistance for the vast majority of consumers who did not shop around. Whilst the introduction of pension freedoms introduced more choice for consumers, it does not necessarily follow that those consumers would choose to exercise it. To this end, the FCA has found that whilst rates of annuitisation have dropped, the vast majority of consumers transitioning into retirement do so with their existing provider.

   The comparison of consumer behaviour pre and post freedom and choice also bears out among advised clients. Pre-pension freedoms and advised client would have through their adviser a complete view of the market and best options available to them whilst also having support to manage their most acute behavioural biases. Post freedom and choice drawdown has become the more popular mode of decumulation with advised clients having the benefit of bespoke strategies built for them allowing them to benefit both from an investment strategy which fits their needs as well as a withdrawal strategy which is sustainable in the long term.

As we set out above, it is out view should the Committee have reservations about the range of options available to consumers or at least options which are being accessed, they should focus on how they can support consumers in the decision making process to ensure that they are fully aware of the options available to them. In doing so, the Committee shold consider how it can encourage more people to access financial advice and guidance. u

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

It is difficult this in the context of the UK decumulation market post pension freedoms being reasonably young. The vast majority of people who have benefited from this policy would have done so through the ages of 55 to 65 and, as a result, will have been adequately catered for by existing options on the market – specifically flexible drawdown given long established reticence towards annuitisation.

The National Employment Savings Trust (NEST) suggested in 2015 that there may be a market for deferred annuities[5] in future allowing consumers to benefit from the flexibility of drawdown in early retirement and security in later life, however to date this has not materialised in the UK market. In our view the provision of deferred annuities makes sense in a society which is rapidly living longer in combination with a social care system which is in need of overhaul. However, the market remains underdeveloped in the UK for a variety of reasons.

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

As above, it is hard to assess whether there are gaps in the market given the relative nascence of the market in combination with it being a traditionally weak demand side of the market. We would suggest that having a weak demand side makes it difficult for providers to innovate or produce other pension options as there is no clearly defined market for them.

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

The FCA estimates that around 4.1m people receive financial advice in the UK[6] through a network of 27,557 financial advisers[7]. In addition to this, 200,000 received guidance through the Pension Wise Service in 20119/20[8]. We think that these numbers are encouraging and both represent growth on a year on year basis since the introduction of pension freedoms.

---

[5] https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/news/NEST-launches-its-retirement-blueprint-in-response-to-pension-freedoms.html

[6] https://www.fca.org.uk/publication/corporate/evaluation-of-the-impact-of-the-rdr-and-famr.pdf

[7] PIMFA, The Financial Adviser Market in Number 2020

[8] https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf

As we set out above, success or otherwise should not be measured solely through the lens of participation – just because someone uses a service, doesn't necessarily mean they have received a good outcome from it. This is especially the case with the use of guidance which we believe should be expanded to provide consumers with a more tailored solution based on a broad understanding of their circumstances rather than the relatively prescribed service that it currently is.

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 remain strong advocates of the Money and Pension Service (MaPS) and believe that it has a valuable role to play as a central, totally impartial guidance service across the UK's retirement savings landscape. MaPS should be the first port of call for the vast majority of savers who are not advised – to this end we strongly believe that the MaPS pension dashboard would have been sufficient for savers to understand their retirement options.

   However, we would stress that over time the evolution of MaPS needs to give due consideration not just to supporting people who access their pensions for the first time but people who are further along in their retirement journeys. We cannot continue to assume that the decisions made at the age of 65 will necessarily bare out for the rest of an individual's retirement – their needs change and with that so do income needs. The benefit of holistic financial planning is that it takes account of these changes, and, whilst we do not believe that it can be replicated with guidance, MaPS and policy makers do need to give due consideration to how they can support savers along their retirement journeys, not just at the beginning of it.

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

   Yes. As we set out above, we believe that it is important for Government to identify how individuals can receive support at the point of retirement to properly understand their circumstances and the options available to them. We do not think it is realistic to assume that such an aspiration could be delivered by an advisory population of just over 27,000. It is for this reason that it is imperative that there is a form of state support for savers able to give impartial support.

   It is our, as we have previously set out, that the government should review the definition of advice and guidance with a view to creating a regulatory structure which allows for tailored forms of guidance and simplified advice solutions. Whilst we think there is some appetite among current market participants to offer forms of simplified advice in particular, there is an obvious argument for a body like MaPS to supplement that market.

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

   No. Many of the challenges which are presented by pension freedoms are exacerbated by the existence of automatic enrolment. Both are very welcome and popular policies but the underlying philosophies associated to them are diametrically opposed. As we have set out, the provision of investment pathways is ultimately predicated on consumer protection rather than good consumer outcomes – this is welcome but ultimately not a good long term solution for policy makers. We would steer the Committee away from any solution which is ultimately rooted in inertia.

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

   We have no comments to make.

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

   You identified the pensions advice allowance in your previous report. We strongly agree with your proposals and look forward to discussing its review with government.

   In our view, pension schemes could do more to flag the advice allowance in their wake up packs. We do not believe that the advice allowance is adequately sign posted whilst there are no requirements from the FCA to require schemes to do more. More broadly we would argue that schemes should take steps to offer it to their members – we do not accept the argument that adviser charging represents an adequate alternative given that they are demonstrably for different cohorts.

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

    We have no comments to make.

May 2021