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Consumer financial advice and guidance for high risk DC savers

The Pensions Policy Institute (PPI) and LV= held a round table on 8 March 2016 to launch the report "Consumer financial advice and guidance for high risk DC savers". The report was sponsored by LV= and looks to explore the demand for and supply of financial advice, and some options for bringing these in line with each other. The research provides an overview of some of the options with the aim of stimulating discussion around these, rather than providing any quantitative analysis of the likely outcomes of each option. The solutions it looks at include greater publicity for Pension Wise, employer involvement in the provision of advice, wider use of robo-advice to reduce cost, a voucher scheme, and the use of default strategies.

Chris Curry, PPI Director, chaired the seminar welcomed attendees and made introductions.

Melissa Echalier, PPI Senior Policy Researcher presented the findings of the research.

John Perks, Managing Director of LV= Retirement Solutions responded to the research findings:

- Regulation is shaping demand for and the supply of financial advice and there has been an increasing focus on wealthy individuals. Recent research conducted by the Association of Professional Financial Advisers (APFA) found that nearly 7 in 10 advisers (69%) said they had turned away potential clients over the last 12 months. The most common reason was affordability, with 43% stating that the advice services they offered did not represent a good fit with the client's needs and circumstances.
- The take up of guidance by Pension Wise has been low. The sessions are important as they allow the consumer to identify whether they need advice and what they should discuss in an advice session.
- People are not shopping around for retirement products and low levels of comparison by the consumer can lead to poorer outcomes. We need to understand how to encourage people to make comparisons.
- While some supply side solutions are emerging there remain issues around stimulating demand for financial advice.
- Employers can play a role in helping employees to access financial advice through a £150 tax free advice allowance.
- An advice voucher funded by the government would also help to re-iterate that the government strongly recommends that individuals take financial advice.
- There is a lack of consensus around a definition of 'advice' in the financial services sector. There are blurred lines between advice, guidance and simplified advice. This can create barriers in terms of lack of trust and a lack of understanding around what individuals may receive under each definition. For example, there remain uncertainties about the scope of simplified advice compared to fully regulated financial advice.

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- The journey to accessing advice needs to be more straightforward.

The following points were raised during the question and discussion session with the panellists and the audience. They do not necessarily reflect the views of the PPI or the PPI seminar speakers:

- Customers do not understand what advice means in the financial services market.
- Robo-advice will likely be popular in the future and could drive down the cost of financial advice. However, robo-advice may have limitations for those individuals who wish to buy more complex products.
- The voucher scheme may have wider economic implications and will only work if the funding comes from outside the industry to make sure that the advice given is not perceived to be biased.
- There are many factors resulting in low take-up of Pension Wise, specifically behavioural factors and structural factors e.g. lack of awareness of advice.
- Providers need to help people understand their own scheme as some people come to Pension Wise sessions without knowing what type of pension they have.
- Health may have a role in advice-seeking and taking. The role of cognitive decline and its impact on financial decision-making should be taken into account.
- The industry does little to promote the benefits of what advice can do.
- The cost of financial advice is not the most important factor to people, trust is more important and there is a lack of trust in financial services. The second most important is independence of the adviser.
- Wake-up packs should be sent earlier, particularly around key life events when advice may be relevant.
- Compulsion of advice is too forceful and the conventional options need to be exhausted before this is used.
- There needs to be a change in the culture around pension saving, particularly, as there are different challenges across the life cycle that people may be more concerned about. Mid-life planning needs to be more holistic and related to people's employment circumstances.
- It is difficult to understand why levels of interest in pensions are low in the UK compared to countries like the Netherlands. This lack of interest has been imputed to the existence of final salary schemes in the past, along with the fact that people expected their employer to take care of their pension needs. However, the situation is the same in the Netherlands where interest in pensions is high.
- There are also barriers as perceptions around ageing and retirement can be negative.
- The journey to attaining financial advice needs to be simplified, currently the industry is fragmented and people do not know which advice service most suits their needs e.g. whether someone needs to see MAS, TPAS or Pension Wise.