

LIGHTING PENSION PATHWAYS



Guiding pension savers through
'freedom and choice'

JUST.

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IT TOOK THE TURMOIL OF THE CREDIT CRUNCH TO GIVE MORTGAGE BORROWERS THE PROFESSIONAL SUPPORT THEY NEED. LET'S NOT WAIT FOR A PENSIONS CRISIS BEFORE GIVING PENSION SAVERS THE SAME HELP.

FOREWORD

Pension ‘freedom and choice’ has been with us for more than two years with hundreds of thousands of pension savers taking billions in pension cash. But are the new rules delivering better outcomes?

That’s the question now being asked by an influential committee of MPs concerned about reports of scams and mis-selling and whether enough help is on offer to those taking some of the most complex financial decisions of their lives.

Right from the start it was clear that the new options would require a higher level of support for pension savers to ensure they fully understood the pros and cons of their decisions. Unveiling the reforms back in 2014, Chancellor George Osborne promised those with defined contribution pensions the right to “free, impartial, face-to-face guidance on how to get the most from the choices”.

His pledge led to the creation of Pension Wise. It gets rave reviews from users but, being purely optional, more than nine in 10 don’t use the service when they choose to access their pension benefits. This widespread failure to engage with the help on offer - both free guidance as well as professional advice - will be one key area under scrutiny by the House of Commons Work and Pensions Select Committee inquiry just announced.

This current free-for-all in the pensions market contrasts with far higher levels of support provided to consumers in the mortgage market in the aftermath of the credit crunch. Regulated advice is now a legal requirement for most of those taking out home loans.

Cost is a factor putting some people off using regulatory advice but not taking advantage of the free guidance on offer needs further exploration. The findings of this research add strong evidence to the value of guidance in helping people to be more confident in their pension decisions and reinforce the case for encouraging many more to seek help in the period leading up to them starting to access their pension benefits. Not least because three quarters (77%) of the people we surveyed told us the pension they had accessed was their main pension pot.

Our main proposal therefore is that people should automatically be enrolled into a pensions guidance session.

As auto-enrolment into pensions has shown, it is possible to use defaults to encourage better decision-making. Automatically enrolling people into guidance would significantly increase usage of this valuable service.

If we can think differently to get guidance to more people this should ultimately lead to better short and long-term outcomes for millions of people. This will be good for individuals, households, taxpayers and policymakers as we help people to make better informed decisions. It took the turmoil of the credit crunch to give mortgage borrowers the professional support they need. Let’s not wait for a pensions crisis before giving pension savers the same help.

Stephen Lowe
Group Communications Director
Just Group plc



SUMMARY

The UK pension system underwent a revolution in 2015 that will have an impact for decades to come. Tax rules controlling the flow of money out of pensions to ensure households had a sustainable source of income were swept away. Options that had been limited only to wealthier pension savers were opened to all.

The reforms introduced very few restrictions in how someone could access their pension benefits and there was limited new conduct regulation to accompany the change in legislation. The message was that people could be trusted to look after their own money and make their own decisions. Today there is no requirement to seek financial advice or even to accept the free guidance on offer.

This situation contrasts sharply with the mortgage market. Since 2014 almost everybody applying to take out a new home loan or switch provider has been required to take regulated advice from a professional intermediary to ensure they fully understand the nature of the product and the potential consequences of their actions.

In personal finance, pensions and mortgages loom large. Good decisions can add to a family's health, wealth and happiness for years to come. Bad ones can turn into expensive mistakes. Yet mortgages are usually 'hands on' through a working life, while engagement with pensions is far lower at least until the point of retirement when some key decisions need to be made.

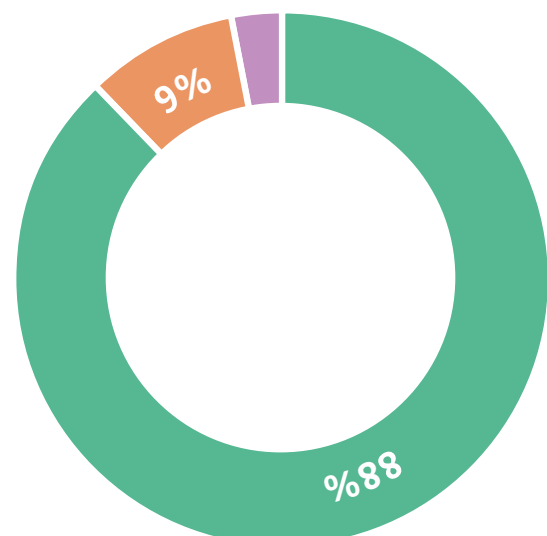
The result is a big difference in consumer attitudes towards pensions and mortgages, reflected in our research into the thoughts of those aged over 54 including half who had accessed their defined contribution pension.

- There is a higher level of understanding of mortgages than pensions – people were twice as likely to say they find pensions more difficult to understand than mortgages.
- People feel more confident making mortgage decisions than they do making pension decisions – they were twice as likely to lack confidence making a pension decision than a mortgage decision.

Those with small pension pots, who arguably need protection most, were the least confident making pension decisions. They were also the least likely to take the free guidance on offer.

HOW HELPFUL DID YOU FIND USING PENSION WISE?

- Not very helpful
- Neither helpful nor unhelpful
- Fairly/very helpful



GIVEN THESE FINDINGS, HOW IS IT THAT PROFESSIONAL SUPPORT IS REQUIRED FOR MOST MORTGAGE PURCHASES, YET PENSION ACCESS REMAINS A FREE-FOR-ALL?

Does Pension Wise guidance work? It certainly appears to. Our research found those who took guidance were more confident in the decisions they made. Nine out of 10 (88%) said Pension Wise was fairly or very helpful with high numbers also reporting it helped them think through their options more thoroughly and consider the long-term consequences of their actions.

Accessing pension benefits usually takes place at a key time of life when people need to make considered decisions that will significantly impact the kind of lifestyle that will be available to them in the years ahead. Pension freedoms provide people with a wider range of choices in how to access their pension benefits. The government recognised the reforms also exposed people to greater risks which often arise because of the inherent behavioural biases many people have.

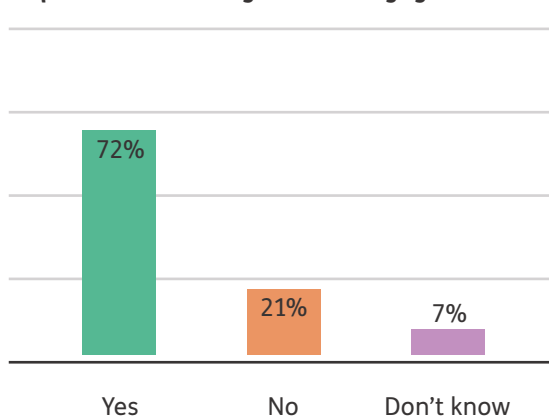
Examples of these risks and biases include: spending their pension too slowly (for fear of running out of money); under-estimating their life expectancy; focusing only on the near future; pension scams; risks from investment performance; and, over confidence.

That is why we believe there is a compelling case for introducing default guidance so that receiving guidance quickly becomes a new social norm – it's what everyone does. Savers relish the flexibility offered by the pension reforms and we believe they should be supported to use this wider choice to help them make informed decisions. Encouraging people to receive guidance should become an integral part of the saver's journey as they reach age 50. Effective nudges into a guidance session and more impactful promotions to illustrate the benefits of guidance should be central to how we design pre-retirement communications. In our proposals, people who have not received regulated financial advice or guidance at the point when they wish to access their pension benefits will be automatically enrolled into a Pension Wise guidance session.

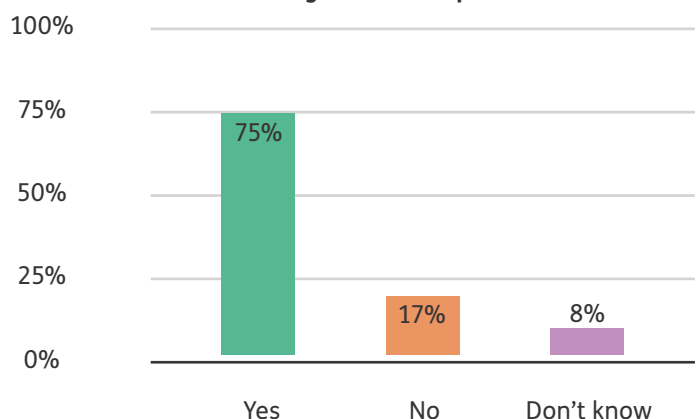
We live in a country afflicted by chronic under-saving and with generally low levels of financial capability. Pensions are not well understood. A little knowledge, explanation and support – especially when it is free at the point of use – can go a long way to making a positive difference to equipping people to make better decisions.

ATTITUDES TOWARDS ADVICE AND GUIDANCE

Should financial advice/guidance be required when taking out a mortgage?



Should financial advice/guidance be required when deciding how to use pension benefits?

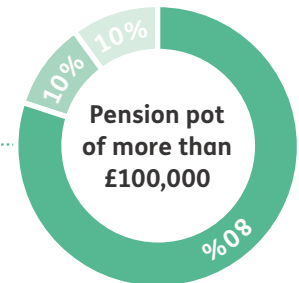
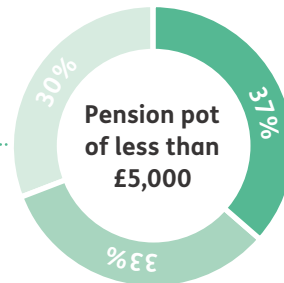


MORTGAGES AND PENSIONS

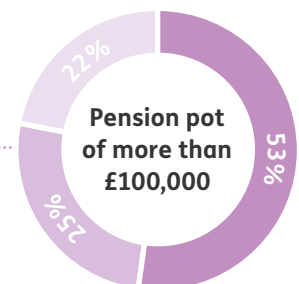
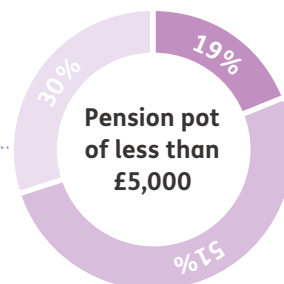
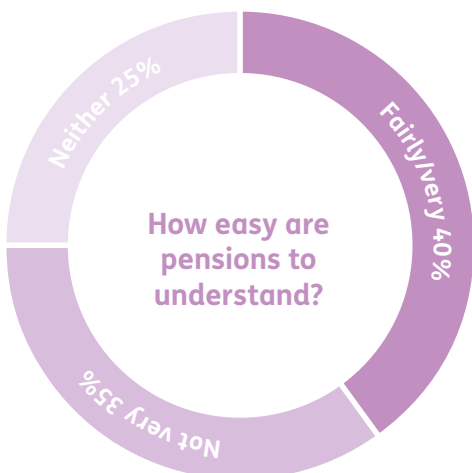
How easy do people find them to understand?

People reported higher levels of understanding for mortgages than for pensions – nearly two-thirds (63%) reported that mortgages were fairly/very easy to understand compared to four in 10 (40%) who thought pensions were fairly/very easy to understand.

- People were more than twice as likely to say they find pensions quite/very difficult to understand (35%) compared to mortgages (15%).
- Twice as many people with the smallest pension pots said they found pensions difficult to understand compared to those with the largest pension pots (51% compared to 26%).
- Only half (53%) of those with the biggest pensions agreed pensions were easy to understand.



- Fairly/very easy
- Quite/very difficult
- Neither easy nor difficult



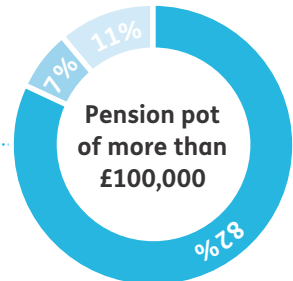
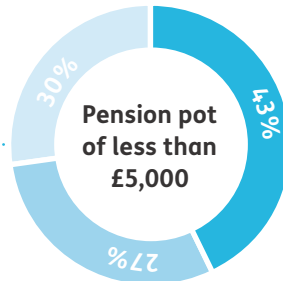
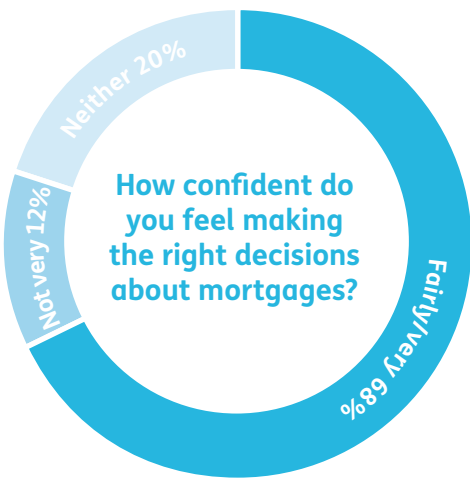
- Fairly/very easy
- Quite/very difficult
- Neither easy nor difficult

How confident are people about making the right decisions?

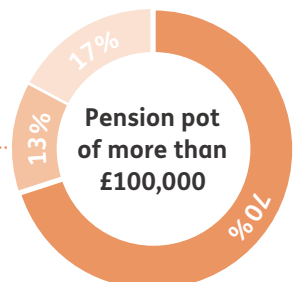
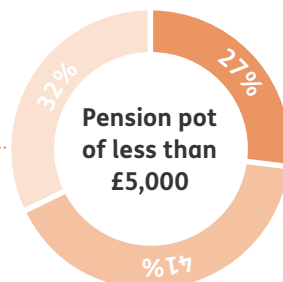
Responses to our survey illustrated a significant difference in how confident people felt in making the right decisions about mortgages and pensions.

- Nearly seven in 10 (69%) said they were confident making mortgage decisions, compared to only just over half (53%) saying they were confident with pension decisions.

- Confidence levels increase as the size of someone’s pension increases. However, regardless of pension pot size people reported being more confident making decisions about mortgages than they were about pensions.
- Those with smaller pensions, below £5,000, had the least confidence and their levels of confidence were far less for pension than mortgage decisions – 27% compared to 41%.



- Fairly/very confident
- Not at all/not very confident
- Neither confident nor not confident



- Fairly/very confident
- Not at all/not very confident
- Neither confident nor not confident

PENSION WISE

AMONG THOSE WHO HAD ACCESSED THEIR PENSION, THE LEVEL OF REPORTED AWARENESS OF PENSION WISE WAS LOWER THAN AVERAGE.

Awareness

We asked all respondents with defined contribution pensions how aware they are of Pension Wise. 58% said they were aware, with a quarter unaware of it.

Interestingly, among those who had accessed their pension in any way, the level of reported awareness was lower than average with 44% saying they were aware and 38% saying not aware. This is despite guidance being targeted at supporting those thinking of accessing their pension.

Across all groups the majority of people are aware that Pension Wise is free to use but a significant number (28%) were unsure and 9% thought it was a paid-for service.

Levels of awareness also varied according to size of pension pot. Among those with funds of more than £50,000 the level of awareness was 66%, compared with 44% in the less than £5,000 and £5,001-£15,000 bands.



Pension Wise and its influences on behaviour

88% of those who used Pension Wise rated it as fairly/very helpful.
Only 3% rated it as unhelpful.

Opinions on Pension Wise from those who used the service:



67%

It helped me think through my options more thoroughly



55%

Made me think about the longer-term more than I would otherwise



47%

It helped me identify my priorities/what's important to me



39%

Gave me reassurance/more confidence in the decision I've made

Other sources of guidance or advice

We surveyed 1,000 people who had accessed their defined contribution pension pot. We controlled the survey sample to make sure that around half of this group had used Pension Wise so we could understand how useful they found the service. We also asked this group of 1,000 what other sources they used for financial guidance or advice and they told us: 20% saw an IFA; 18% spoke with their pension provider; and 8% spoke with friends and family.

Reliance on their pension provider for advice or guidance was highest among those with the smallest pots. This group also showed the greatest response (36%) to the statement 'I just wanted my money'.

PENSION WISE

How guidance and advice is valued

Responses confirm that the vast majority of those who had used Pension Wise would recommend the service to someone else considering accessing their pension benefits, with more than half very likely to do so.

87%

would be fairly or very likely to recommend the Pension Wise service to someone else

12%

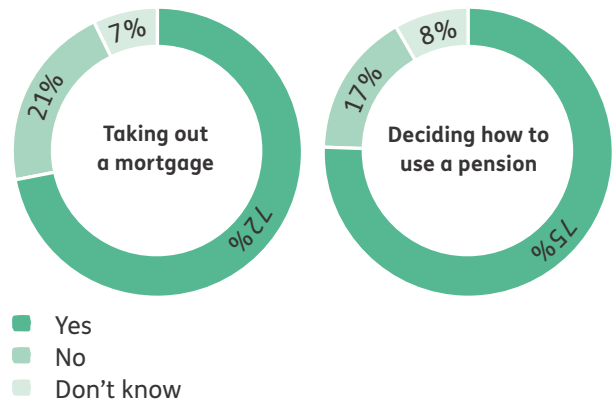
would be neither likely nor unlikely to recommend the Pension Wise service to someone else

1%

would be unlikely to recommend the Pension Wise service to someone else

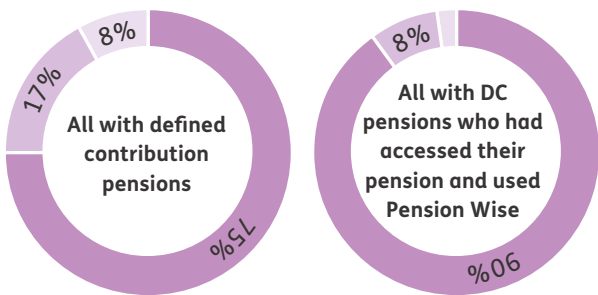
Should people be required to take financial guidance or advice?

Overall, there is a widespread recognition that people making major financial decisions about both pensions and mortgages should be required to get expert help. About three in four agreed that people should be required to take financial guidance or advice when taking out a mortgage or deciding how to use their pension benefits, with the number slightly higher for pensions.



Should people be required to take financial guidance/advice when deciding how to use their pension benefits?

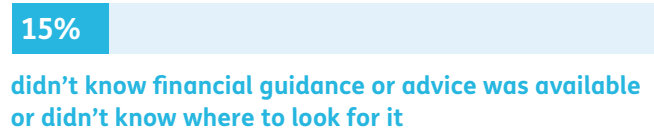
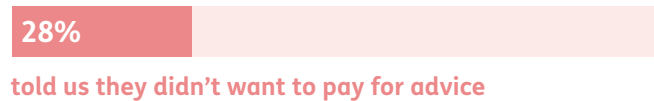
More startling still was that, among those who had used Pension Wise, there was a significantly higher number who said that everybody should be required to take the guidance, clear evidence that the time spent had a positive effect on the benefit they received from using the Pension Wise free guidance.



- Yes
- No
- Don't know

Reasons for not taking guidance or advice

We asked respondents who did not take any guidance or advice for their reasons.



CONCLUSIONS

The research highlights a glaring contradiction in current government policy. Pensions are less well-understood than mortgages and people are less confident making decisions about pensions than mortgages. The potential for detriment in the pension market is arguably bigger than for mortgages because financial vulnerability increases with age. Yet it is in the mortgage market where professional support is mandatory.

In contrast, over-55s considering how to use their pension benefits are exposed to some of the most complex judgements and risks that could affect the next 40+ years of their lives. And these complex judgements can be made without any structured support.

While 'pension freedoms' are undoubtedly popular, the concept alone cannot deliver better retirement outcomes. The reforms have magnified the risk and responsibility on individuals. Drawing a sustainable income from a capital lump sum is fraught with difficulties due to the uncertainties of how long the income will be needed, future investment returns and the effects of inflation.

Pension Wise can help. It is highly-rated by all users for increasing understanding and encouraging better decisions. But it is easy to ignore, particularly by those with small pots who probably have the most to lose.



RECOMMENDATIONS

More than half of the pensions accessed are fully withdrawn, while income drawdown – previously only available to sophisticated investors – has been described by the Financial Conduct Authority as the ‘new norm’ for those taking some cash and leaving the rest in a pension. HMRC figures show that around £13 billion has been withdrawn in flexible payments since April 2015 by hundreds of thousands of over-55s.

We can hope that many of those withdrawn billions are being used wisely, but the truth is that we don’t yet know. The government has given people more freedom and choice to make their own decisions how to use their pension benefits. They must help to mitigate far more

effectively the risks people are exposed to, by making guidance a social norm. We believe automatically enrolling people into guidance is a positive pursuit and a proportionate response to turn around the disappointing current low usage levels.

Many people will have worked and saved hard for 40 years or more to build up their pension pots. Supporting people to make better informed decisions with a 40 minute guidance session to help them decide how to make their savings work hard for what could be a further 40 years feels a wholly appropriate and proportionate policy response.

We make three recommendations to establish receiving guidance as a social norm:



1

Increase awareness of the value of Pension Wise guidance

Our research shows that Pension Wise guidance is valued by those who use it, but there is still considerable ignorance about how guidance works and who it is for. Promoting the benefits of Pension Wise to raise awareness levels and develop comprehension amongst target users is a necessary first step.



2

Communications to engage with guidance should start at age 50

When people reach age 50, communications motivating people to receive guidance should start and continue with increased intensity until the decision is taken to access pension benefits. The goal is to ensure people have time to reflect on the guidance provided well in advance of being eligible to access pension benefits.



3

Automatic enrolment into pensions guidance

People who have not received guidance or regulated financial advice and who request access to their pension benefits will be automatically enrolled into a Pension Wise guidance session. This needs to be built into the sales and administration processes of all firms and established as an FCA and Pension Regulator requirement. As with auto-enrolment, an opt-out process will be established, but we expect inertia will play a positive role in driving up Pension Wise usage.

OUR RESEARCH

Research into the impact of the pension reforms has raised a number of important questions. Undoubtedly some people accessing pension benefits are being prudent and cautious. Others seem to be acting hastily and taking decisions that are likely to have a negative impact on their living standards in later life. More visibility and insight into how customers are using their pension benefits and the assumptions they are making is vital. It will help all of us who want to support savers by developing better interventions to improve customer outcomes.

This research adds important pieces to the jigsaw. We wanted to know more about how people are making their decisions to access their pension benefits; and their attitudes towards sources of information, guidance and advice.

We questioned 2,000 savers with a defined contribution pension to gauge their general understanding of pensions compared to mortgages. Of those, 1,000 pension savers had taken cash from their pension pots, half of whom had used Pension Wise.

Currently the support provided by Pension Wise, is under Parliamentary review as part of a plan to create a single guidance body covering all aspects of personal finance.

The research we present here highlights some key points that should inform future policy in this area if we are to help millions of people live richer and more fulfilling lives.

We wanted to know:

1. WHETHER PEOPLE FIND MORTGAGES AND PENSIONS EASY OR DIFFICULT TO UNDERSTAND.

2. WHETHER PEOPLE FEEL CONFIDENT MAKING DECISIONS ABOUT PENSIONS AND MORTGAGES.

3. WHETHER PEOPLE FEEL ADVICE OR GUIDANCE SHOULD BE REQUIRED WHEN ACCESSING A PENSION OR PURCHASING A MORTGAGE.

ABOUT JUST

Just (Just Group plc) is a FTSE-listed specialist UK financial services company created by the merger of Just Retirement Group and Partnership Assurance Group.

A leader in the individual retirement income, lifetime mortgage, care and defined benefit de-risking markets, Just has been trusted to manage over £15 billion of customers' retirement savings and has helped customers release over £3.5 billion from their properties.

Just provides the following wide range of products, advice and professional services to individual customers, financial intermediaries, corporate clients and pension scheme trustees.

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