advice and support for older age

Independent Age

Independent Age’s response to HM Treasury's consultation on Freedom and Choice in Pensions

10 June 2014

About Independent Age

Founded 150 years ago, Independent Age is a growing charity helping older people across the UK and Ireland through the 'A B C' of advice, befriending and campaigning. We offer a national telephone and email advice service focusing on social care, welfare benefits and befriending services, which is supported by a wide range of printed guides and factsheets. This is integrated with on-the-ground, local support, provided by a network of over 1,500 volunteers offering one-to-one and group befriending.

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Speak to one of our advisers for free and confidential advice and information. Lines are open Monday to Friday between 10am-4pm. Call 0800 319 6789 or email advice@independentage.org

Summary

- We believe that there is a strong case for raising the age at which private pensions can be accessed to maintain parity with the State Pension. The arguments for doing so are the same as for increasing the State Pension age. People's accumulation of wealth in private pensions benefits from state support through tax relief, so in our view it is fair that the government exercises restrictions in line with overall government policy in relation to accessing any pensions which qualify for tax relief.

- We feel that it is inequitable for people who are dependent on the State Pension to be obliged to wait longer to receive it, whereas those who have private pension wealth are not subject to similar restrictions. For this reason, we believe that it would be appropriate to raise the minimum pension age so that it is five years below the State Pension age, providing parity between the two systems.

- However, we feel it would be of value for the government to encourage pension providers to allow pensions to be taken early on the grounds of severe ill-health (as already happens with many pension schemes). There may be a growing number of people who retire early in order to fulfil caring responsibilities, and we would call for this to be considered as another category of exception.

- We welcome the government's proposals for a new guidance guarantee offered to all individuals with a defined contribution scheme as they approach retirement. We believe it is essential that guidance about options when accessing private pensions should be free, impartial, high quality and delivered face to face. This is essential for good decision-making about funding retirement and central to the success of the changes proposed to introduce greater flexibility in accessing pensions.

- Our strong view is that advice which is delivered by pension providers themselves will not be seen as impartial. We feel strongly that providers should be required to facilitate access to free advice and information on behalf of their members from an independent advice organisation such as the Pensions Advisory Service or the Money Advice Service. A free face-to-face meeting provides the opportunity for tailored advice to be given, taking into account the full range of individual needs and aspirations for retirement.

- We believe there is an opportunity in the longer term to expand the group of providers to include a greater range of advice organisations from the voluntary sector. However, this would require considerable investment in capacity-building and quality assurance systems.

- We believe the offer of a regular review of financial circumstances during retirement would be very helpful, particularly for individuals who don't purchase an annuity. This could happen for example every two or three years or could be triggered at key ages during retirement, for example 75, where individuals may want to review their longer term planning.

- There are a number of other identifiable decision points during retirement where individuals have contact with professionals who would be in a position to signpost them to further free, impartial advice: decisions about property; critical life events; onset of care needs; and changes in financial circumstances or arrangements.

- Accessing good quality financial advice in relation to these events during retirement can be very difficult. In this context, we welcome the government's proposal to work with the FCA to explore the extent to which regulated advice can be made more affordable and to further explore with regulated financial advice firms their capacity to provide a low-cost offer appropriate to consumers with relatively small investment resources. Local authorities also have a key role under the 2014 Care Act to coordinate the provision of financial advice in relation to funding care and support needs.

Independent Age's response to consultation questions

3. Do you agree that the age at which private pension wealth can be accessed should rise alongside the State Pension age?

4. Should the change in the minimum pension age be applied to all pension schemes which qualify for tax relief?

5. Should the minimum pension age be increased further, for example so that it is five years below the State Pension age?

We believe that there is a strong case for raising the age at which private pensions can be accessed to maintain parity with the State Pension. The arguments for doing so are the same as for increasing the State Pension age: increasing longevity and healthy life expectancy mean that people can on the whole be expected to be fit enough to work for longer and at the same time pension savings will need to stretch to cover a longer period. Increasing the age that people can access their private pension will encourage people to stay in work longer while also continuing to accumulate their pension savings.

We feel that it is inequitable for people who are dependent on the State Pension to be obliged to wait longer to receive it, whereas those who have private pension wealth are not subject to similar restrictions. Without a similar increase in minimum private pension age, there is a risk that the difference between the 'haves' and the 'have nots' will increase even further in terms of the choice and control over the timing and circumstances of their retirement. For this reason, we believe that it would be appropriate to raise the minimum pension age so that it is five years below the State Pension age, providing parity between the two systems.

People's accumulation of wealth in private pensions benefits from state support through tax relief. In our view it is fair therefore that the government exercises restrictions in line with overall government policy in relation to accessing any pensions which qualify for tax relief. The case for this is made stronger by the removal of restrictions on how people can invest their defined contribution pensions.

Evidence shows that early retirement is more likely to happen among wealthier groups who can afford to stop paid employment. However, we recognise that another key reason for leaving work before State Pension age is on the grounds of ill-health or disability. It will be important that these people are not disadvantaged by not being able to access their private pension when they most need it (particularly if their life expectancy is lower). We therefore feel it would be of value for the government to encourage pension providers to allow pensions to be taken early on the grounds of severe ill-health (as already happens with many pension schemes). There may be a growing number of people who retire early in order to fulfil caring responsibilities, and we would call for this to be considered as another category of exception.

6. Is the prescription of standards enough to ensure the impartiality of guidance delivered by the pension provider? Should pension providers be required to outsource delivery of independent guidance to a trusted third party?

We welcome the government's proposals for a new guidance guarantee offered to all individuals with a defined contribution scheme as they approach retirement. We believe it is essential that guidance about options when accessing private pensions should be free, impartial, high quality and delivered face to face. This is essential for good decision-making about funding retirement and central to the success of the changes proposed to introduce greater flexibility in accessing pensions.

Our strong view is that advice which is delivered by pension providers themselves will not be seen as impartial. This is partly because of low consumer confidence in the financial services industry following mis-selling scandals. Current consumer behaviour makes it clear that people have a poor understanding of their options when drawing their pension and the benefits to them of purchasing annuities from other providers. Guidance from their existing provider is unlikely to provide enough encouragement for most people to investigate options beyond the existing default decision. Where people have more than one pension, this raises the question of which pension provider they should be looking to for advice.

We feel strongly that providers should be required to facilitate access to free advice and information on behalf of their members from an independent advice organisation such as the Pensions Advisory Service.

What should be provided as part of the guidance guarantee?

The guidance will need to cover a number of key elements if people are to make a well-informed decision about whether purchasing an annuity is the best option for them or not. It will be important that the introduction of a new flexibility around annuitisation does not in itself encourage people to decide against it, when it may be the best solution for many. The broad implications of choosing between purchasing an annuity, a drawdown arrangement or withdrawal of the pension as a cash lump sum therefore need to be explained prior to take-up of a face-to-face meeting.

We believe that the guidance guarantee needs to take the form of three separate components if it is to provide a genuine guarantee of good quality guidance and support individual choice:

- an initial approach making the offer of free, impartial face-to-face advice and outlining in plain English the three main choices (an annuity, a drawdown arrangement, full withdrawal of pension). This should be provided as written information and followed up by a phone call.

- a free face-to-face meeting with an adviser from a nationally-recognised and trusted financial advice organisation, such as the Pensions Advisory Service or the Money Advice Service. This provides the opportunity for tailored advice to be given taking into account the full range of individual needs and aspirations for retirement. This might include plans for continued employment, providing financial support or care for family members, potential future care costs, expectations around moving home. Information will also need to be provided about the tax and benefit system and social care funding, and what this means for decision-making about pension money. For example, there needs to be a discussion with people about the consequences of a full withdrawal of their pension and how that would be treated as income in a means test if they were to need social care in the future.

- a second-stage offer of paid-for advice provided by an Independent Financial Adviser (IFA) for people who need more help with product selection or more complex situations. It will be important that the guidance guarantee provides that in the initial free meeting, individuals are given the information they require to select an appropriate IFA and to assess the advice and products they are subsequently offered.

We welcome the proposal to use insights from behavioural economics to optimise the take-up of and engagement with financial advice in order to promote good quality decision-making.

We believe there is an opportunity in the longer term to expand the group of providers to include a greater range of advice organisations from the voluntary sector. However, this would require considerable investment in capacity-building and quality assurance systems.

8. What more can be done to ensure that guidance is available at key decision points during retirement?

It will be important that decisions about pensions are taken with enough time for people to really consider the implications of the different options and consult with others if they want to. The guidance guarantee should therefore ideally be provided at least six months before the point when the pension is taken so that people can start to think about their options.

It is clear that there will be a far greater need for ongoing financial advice during retirement where individuals opt against purchasing a fixed annuity and select an approach to funding their retirement which has greater in-built flexibility.

Following the face-to-face meeting to discuss how to invest or spend their defined contribution pension, we believe the offer of a regular review of financial circumstances would be very helpful for individuals. This could happen for example every two or three years or could be triggered at key ages during retirement, for example 75, where individuals may want to review their longer term planning.

There are a number of other identifiable decision points during retirement where individuals have contact with professionals who would be in a position to signpost them to further free, impartial advice:

- decisions about property: for example, paying off a mortgage, taking out an equity release product, selling or buying a new property, taking out a loan for home improvement

- critical life events: divorce, bereavement, accidents or major illness

- onset of care needs: having a needs assessment for domiciliary or residential care (or a partner/spouse having an assessment)

- changes in financial circumstances or arrangements: accessing a second pension, receiving an inheritance, stopping all paid employment, taking up a loan or other financing commitment (supporting grandchildren for example)

- writing or reviewing a will.

Accessing good quality financial advice in relation to these events during retirement can be very difficult. As an example, evidence from one study suggested that only half of people who received independent financial advice about funding their social care received this from an adviser with care specific qualifications, and only 3% of councils said they provided a list of IFAs who could deliver advice about care funding products[1].

Under clause 4 of the 2014 Care Act, local authorities have a duty to establish and maintain a service for providing independent information and advice for their residents, including financial advice about funding their care and support. They will therefore have a key coordinating role in making advice on the use of pensions money available to people both before retirement and at key stages during retirement.

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[1] *Independent Ageing: Council support for self funders, LGIU, March 2011*

In this context, we welcome the government's proposal to work with the FCA to explore the extent to which regulated advice can be made more affordable and to further explore with regulated financial advice firms their capacity to provide a low-cost offer appropriate to consumers with relatively small investment resources.

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