

APPG for Financial Resilience
Call for Evidence – Response from Just Group, February 2022

Overview

As a leading provider of financial services to people at and in retirement, Just Group welcomes the chance to respond to the APPG's call for evidence. Our social purpose is to help people achieve a better later life. Helping people achieve financial resilience is clearly central to this purpose.

High levels of disengagement and poor understanding of pensions make pensions and retirement planning difficult for consumers at the best of times. The impact of the pandemic and subsequent income shocks has made this worse, bringing into focus the importance of ensuring people receive impartial professional support before making important pensions access decisions. Our response focuses on the risks posed to people's financial resilience by low and falling levels of usage of impartial pensions guidance and advice, and the present absence of any adequate policy to reverse this trend.

The main points relevant to the APPG's questions are:

- **Planning and preparedness for retirement was generally poor prior to the pandemic. There is no evidence to suggest this has changed since.** If anything, the economic impact is likely to have led to thousands more people facing the prospect of unplanned early retirement because of being made redundant and unable to find another job.
- **Free, impartial support is available to help people engage with pensions and retirement options.** The Pension Wise guidance service created by the Government as part of the 'pension freedom' reforms has proven highly popular and effective. But it remains badly underused. The Work and Pensions Committee recently set out widely-supported recommendations for the Government to change this, including evaluation of an auto-appointment booking approach for savers – which we encourage the APPG to review and support.
- At a point when auto-enrolment has delivered so well in relation to workplace pension participation **there is a real risk that people will experience reduced financial wellbeing in retirement as a result of badly informed decision making.** This not only brings major risks for savers themselves but also the potential for reduced trust in the UK pensions system.

Given the implications for the financial resilience of millions of people approaching retirement in the coming years we hope the APPG will apply an appropriate level of focus to these issues. We hope the evidence below is useful and would be happy to provide any further information.

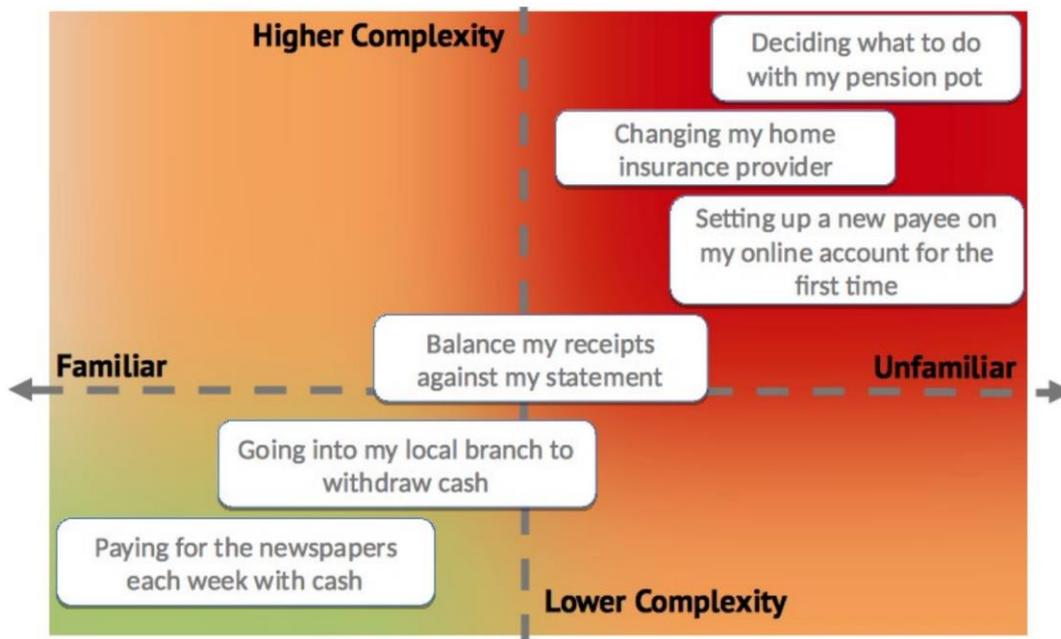
Answers to specific questions from the Call for Evidence

Are people thinking about their retirement, and at what age?

Many savers either do not think properly about their retirement or do not understand their options. The concepts, terms and associated risks are unfamiliar to most. This is problematic when research suggests the complexity of related decisions is so high and familiarity with the products, options and processes so low – as is the case with pensions and retirement decision-making.

To illustrate this point, the graph below is taken from research commissioned by the Financial Conduct Authority on customer capability and decision making¹. It expresses the significance of the twin factors of complexity and familiarity in relation to different types of transaction.

¹ [The Ageing Population: Ageing Mind Literature Review Report](#), FCA/The Big Window, 2017



These findings are reinforced by a growing weight of analysis showing poor levels of financial capability among UK consumers. Office of National Statistics analysis has found that less than half (49 per cent) of adults aged 45 to 54 feel they know enough about pensions to make decisions about saving for retirement, rising to 64 per cent among those aged 55 and over – suggesting large numbers have doubts over their decision-making capacity in this area.²

Such surveys of general awareness are matched by poor understanding of the specific options facing savers when considering how to access their pensions. A survey of 5,000 DC pension savers aged 55-70 conducted by the International Longevity Centre found that only half understood what an annuity is 'quite or very well'. Just 3 per cent said they understood what income drawdown is 'quite or very well', compared to more than 90 per cent who said they understood what a mortgage is.³

Problems relating to the basic understanding of pension options are likely to be compounded for those consumers impacted by the economic dislocation caused by Covid, and now rising inflation. With behavioural factors such as short-termism, overconfidence, status quo and optimism biases also known to influence consumer outcomes, the value of impartial professional support is clearly even greater than ever.

For these reasons, [Pension Wise](#) was created in 2015 as the free, impartial guidance service for people to use before accessing Defined Contribution pensions under the 'pension freedoms'. The service has received consistently excellent feedback from users. The most recent user evaluation found that 94 per cent of appointment customers were very (77 per cent) or fairly (18 per cent) satisfied, with 97 per cent saying they had already recommended or would recommend the service to others.⁴

Yet Pension Wise usage has actually fallen over the last three years. New FCA data show that the number of DC pension pots accessed after Pension Wise was used has fallen, from 94,744 in 2018/19 to 94,274 in 2019/20 and 81,805 in 2020/21. A 14 per cent reduction. Similarly, the number of pensions accessed via a regulated financial adviser fell by four per cent in this period.⁵

² [Wealth and Assets Survey: attitudes towards saving for retirement, automatic enrolment into workplace pensions and financial situation](#), ONS, 2018

³ [Making the system fit for purpose](#), ILC, 2015

⁴ [Pension Wise service evaluation 2019/20](#), Money and Pensions Service, 2020

⁵ [Retirement income market data 2020/21](#), FCA, 2021

This is important because Pension Wise provides an opportunity for savers who do not access financial advice to at least understand their options, speak with a professional who can impart key relevant information, answer their questions and correct misunderstandings. Yet the FCA data show that hundreds of thousands of savers are accessing their pension benefits each year without first using Pension Wise or regulated advice.

We encourage the APPG to focus on this issue and recommend policy measures capable of driving up impartial guidance usage, so that savers receive the help they need to achieve financial resilience in retirement.

Have different groups within society had different financial experiences throughout the pandemic? Have there been differences by age, gender, ethnicity, housing tenure and region?

As data covering the pandemic period becomes available it is becoming increasingly clear that women experience worse financial experiences in the retirement market. In part this is due to trends that existed before Covid. Research conducted by Just during the pandemic shows that women (12 per cent) are less than half as likely as men (26 per cent) to be highly engaged with their pensions.⁶ Nine in 10 women aged 45-54 approaching retirement were unaware they are entitled to free, independent, and impartial guidance through Pension Wise, for example. This leaves women more highly exposed to negative financial experiences when planning for retirement.

Auto enrolment is helping to alleviate the gender gap in terms of pensions participation and this is welcome. But this addresses only the first part of the system, i.e. bringing people into pension saving. The UK's evolving pensions system clearly needs new measures at the later stages of the pensions customer journey to equip savers with the basic level of understanding required to achieve financial wellbeing and resilience in retirement – and to avoid the known risks as a minimum.

What policy changes would improve people's financial resilience, in light of the pandemic?

Impartial guidance and regulated advice clearly has a major part to play, but it must be used in order to be effective. This is true of guidance across all the various life stages but especially important at and in retirement, when the consequences of badly informed decision making can be profound and enduring. Beyond the economic consequences of the pandemic retirees also face risks including record levels of pension scam activity, unexpected tax charges, rising inflation and inappropriate product decisions.

These are among the reasons why the Work & Pensions Committee has called on the Government to ensure savers use either impartial Pension Wise guidance or regulated financial advice before accessing their pensions. The Committee's [Accessing pension savings](#) inquiry report, published in January, set out recommendations for the Government to set up trials of an auto-appointment booking approach to improving pensions guidance take up. Also to set a 60 per cent target take up for guidance or advice, to provide a target for new policy interventions. The trial recommendation draws on key principles from the successful auto-enrolment policy, such as overcoming disengagement, removing sign-up friction, use of positive defaults (while preserving choice) and converting latent interest into positive action.

Just Group believes policy measures are necessary because Pension Wise usage (and advice usage) is falling among pension savers. Also because the only measures offered to date by the Government – the “stronger nudge” towards guidance – have been recognised by the Work and Pensions Committee and others as inadequate. **We hope the APPG will share the assessment made by the Work and Pension Committee and call on the Government to take forward an evaluation trial of the auto-appointment booking approach for Pension Wise without delay.**

⁶ [Mind the pensions gender gap](#), Just Group, 2021

The Annex below shows excerpts from evidence given to the Work and Pensions Committee by Age UK, the Association of British Insurers, the Financial Services Consumer Panel, The Pensions Regulator, FCA and Money and Pensions Service, indicating other organisations' views on this issue. We hope this is useful and look forward to following the APPG's work on the impact of Covid-19 on people's finances.

About Just

Just Group plc ("Just") is a leading provider of retirement income solutions, care plans, Defined Benefit pension de-risking solutions and lifetime mortgages. At the core of our business is a social purpose to help people achieve a better later life, which we achieve through our approach to our market, our communities, and active contribution to key pensions, retirement and regulatory policy debates.

Contact

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Annex – Oral evidence from Work and Pensions Committee inquiry

1. Work & Pensions Committee oral evidence session, 16 June 2021 (full transcript [here](#))

"Freedom and choice is fiendishly complicated for individuals. It has the potential to cause a lot of problems. The majority of people are not familiar with pensions. It is a new thing and a series of big decisions that they are likely to have to make. It is important that the information is provided impartially to them."

"The guidance guarantee, which became Pension Wise, was promised as an integral part of freedom and choice to provide the support on offer. The fact that only 14 per cent of pots—about one in seven—are being taken through Pension Wise is concerning. It is low. As Pension Wise does provide a good service, we would like to see that significantly rise. The Minister has said that he wants it to be the norm, which suggests that a significant majority of people would be using Pension Wise before they take their initial decisions on accessing. There is a lot of work to do." **Chris Brooks, Head of Policy, Age UK**

"We have a distinct problem right now at the point of retirement, as has been described. We have a solution that we know works well. Everything cannot be done at once. Getting Pension Wise to people at the point when they are first able to access it is the right thing to do. We need much greater take-up of the Pension Wise service, which is a good service in terms of all the consumer feedback that we know about. We believe that an auto-booking system should be trialled, but we also believe—similar things were said by the last panel—that providers should and can play a greater role not just in the provision of information at the point of retirement but also all the way through, because in many ways that is the unresolved piece of the puzzle." **Dr Yvonne Braun, Director of Policy, Long Term Savings & Protection, Association of British Insurers**

"I agree with the previous witnesses that understanding is every bit as critical as information. People need to understand that their retirement will not be the same as their mother's and father's. They will almost certainly live longer. They will probably be much more reliant on income from defined contribution savings. There is a much bigger risk that their income will not match their spending aspirations. The best way to help people through this is probably through some sort of guided conversation. It is critically important to get this right because if their first experience leaves them feeling worried, they are much less likely to come back and seek further support." **Dr Julia Mundy, Financial Services Consumer Panel member**

2. Work & Pensions Committee oral evidence session, 22 September 2021 (full transcript [here](#))

"A lot more people would benefit if they approached the Pensions Advisory Service or Pension Wise for guidance and support. It may be that some people are in a position where they understand exactly where they are and they don't need that guidance and support because their income needs are taken care of by the entirety of their retirement savings. But overall pensions are complex, they have jargon and more people would benefit from using Pension Wise, which has a very impressive satisfaction statistic that shows that the people who take it up are very well served by doing so." **David Fairs, Executive Director, The Pensions Regulator**

"We are open to considering the possibilities of a trial. We would need to do so in conjunction with others... From an FCA perspective, we support making this the norm. I don't want to comment on what the norm would mean in percentage terms, but we support making it the norm. We have also said that we think that more active intervention is likely to be needed to get to that point. We want to see how the stronger nudge plays out and possibly a cooling-off period or any other suggestions that could encourage take-up rates in that space." **Sarah Pritchard, Executive Director - Markets, Financial Conduct Authority**

"If FCA and DWP trial auto appointments, we would absolutely support them in that trial. We would take the role of making sure not only does the automated appointment get more people to us but are they getting the outcomes they need? Both FCA and TPR talked about mid-life MOT and how that can help people in that earlier stage of life with the planning aspects of retirement. That is something we are also looking at." **Carolyn Jones, Head of Money and Pensions Guidance Policy and Strategy, Money & Pensions Service**