



Written evidence submitted by Citizens Advice to the Work and Pensions Select Committee

1. Citizens Advice seeks to empower consumers to make the best choices for their own lives, so we support the principles behind the pensions freedoms introduced this year. We are helping more and more people to make informed decisions about their pensions. Last year over 310,000 people sought help from us with their pension, up from 220,000 the previous year. We therefore have a clear view of the consumer risks around pensions, both through our Citizens Advice service and through delivery of face to face Pension Wise sessions, and we can offer some suggestions to mitigate those risks.

2. Our key messages for the Committee are:

- To make best use of the freedoms, and to reduce the risks to individuals, consumers need to understand pension savings, need to understand pension choices, and most need advice or guidance to make pension choices.
- Our Pension Wise service is currently working well for consumers, with very high customer satisfaction rates - our exit surveys show 99.3% are either 'very satisfied' or 'satisfied'.
- There is room for guidance to develop and offer a more personalised, responsive service. Better referrals from guidance to advice services and changes to the advice market itself could widen access to advice for consumers.

3. We recommend the following changes:

- More should be done to ensure that people are referred to Pension Wise, which can then act as a gateway to regulated advice if people want extra support.
- Pension Wise should build on its early success to offer a more personalised service. The core script should be protected, but advisers should be able to offer guidance on wider issues such as annual allowances and the new flat rate pension if asked.
- Guidance should help tackle the root causes of problems. For example, clients with debt or relationship issues should be referred to other support services.
- The current restrictions around one off use of Pension Wise should be reviewed. Someone visiting Pension Wise aged 50 should be able to have a second session if they then retire at 65, for example.
- The market for financial advice should be supported by encouraging new entrants and offering better referrals to restricted advice.

About Citizens Advice

4. Citizens Advice is a national charity which delivers advice services from over 3,300 community locations in England and Wales, run by 338 registered local charities. We are helping more and more people with their pensions. Last year (so excluding Pension Wise) 312,420 people sought help with their pensions from Citizens Advice, comprised of 52,761 face to face clients in our local offices and 259,659 people using our website. Face to face clients were up by 39% compared to 2013/14, and online users rose by 44%.

5. This year we started delivering face-to-face Pension Wise guidance on behalf of the government. All of our Pension Wise staff are accredited professionals. As we deliver this service we are monitoring consumer issues like pensions scams. We have noticed that a significant proportion of clients are raising questions about their broader lives in these sessions, such as financial capability, tax credits or debt. In total 27.3% of our Pension Wise clients have booked a separate Citizens Advice session on other issues to help them find a way forward.

6. We are submitting evidence because we want to help ensure that consumers receive the guidance and advice they need to make good choices about their pension savings.

To make best use of the freedoms, and to reduce the risks to individuals, consumers need to understand pension savings, need to understand pension choices, and most need advice or guidance to make pension choices

7. There are a number of risks to consumers associated with the new freedoms, such as succumbing to a pension scammer; unexpected tax and benefit consequences; investment risks; longevity risks; and getting a product which offers poor value for money. Guidance and advice can play a key role in addressing these risks - to follow the remit of the inquiry we have focused on these here - but action is also needed to make the market work better and to protect consumers from exploitation.

A good consumer journey

8. To make best use of the freedoms, and to reduce the risks to individuals, we believe the following conditions need to exist:

- **Understanding pension savings:** Individuals should be able to get simple and clear information about the value of their DC pots and any guarantees, penalties, charges or conditions which affect the decision they are about to make. Ideally this would include access to a pensions dashboard featuring all of an individual's pension entitlements.
- **Understanding pension choices:** Individuals should be signposted to free and independent guidance to help them understand what their options are, help understand what each option could mean for them, and help them make their decision about which generic option to choose. This should be a multi-channel offering and consumers should have access to personalised tools to illustrate the guidance.
- **Making pension choices:** Once people have this information and understanding they should then be in a position, whether they want to compare options themselves or seek help from a regulated professional adviser, to find a product(s) that best meets their needs. This would involve clearer comparison tools and better signposting to relevant financial advice.

Pension scams

9. The worst case scenario for consumers is to lose all of their savings to a scammer (and potentially face an unexpected tax bill too). As a consumer champion we work hard to make people more aware of the risk of pension scams and to provide evidence to help regulators and government reduce the threat posed by scammers.

10. We recently published [research](#) as part of our annual Scams Awareness Month to show how pension scams may be evolving following the introduction of pension freedoms. Four months after the reforms took effect, we found that many of our pension staff have seen clients targeted repeatedly by scammers and early signs that focus is shifting to accessing lump sum withdrawals for people aged over 55 (whereas previous focus was on pre-55 liberation scams). We previously published [research](#) showing consumer experience of pension scams before April 2015.

Understanding the market

11. To get the most from the new freedoms, individuals need to be able to understand and compare specific products offered by different providers and select those which best meet their needs. For some people, regulated financial advice will be a good way of doing this. For others, however, the cost or lack of availability will mean this is not a realistic option.

12. Comparing product offerings can be particularly difficult - especially as the market evolves rapidly in response to the freedoms and new products are developed - as it is not easy to find a list of which firm is offering what product and the terms are rarely set out on a comparable basis. For example, in the case of drawdown products, a wide range of charging structures is used by providers.

13. We therefore think the following steps are needed to help consumers:

- First, action is needed to ensure that charges and other features are disclosed in a comparable fashion.
- Second, there is a need for an independent web-based service (such as that offered by MAS for annuities) which helps signpost people to providers and aids comparison.
- Third, common language and terms should be adopted where possible across the industry to help consumers understand their options.

14. Good information, guidance and advice will go a long way to helping people get the most out of the freedoms. However, there is also a need to look at the regulatory framework. We would highlight the following issues here:

Governance of pension schemes and providers

15. The OFT's 2013 market study of workplace pensions highlighted the failures of the pensions market and recommended a series of changes. The guiding principle was that market forces on their own were unlikely to deliver good outcomes for members and that government and regulators needed to set clear enforceable standards to counter the imbalance of power between individuals and providers. Legislation and FCA Rules brought key changes into effect from April 2015 including the requirement that providers should have Independent Governance Committees to oversee the value for money of their workplace pension offerings. Because decumulation products are not technically counted as 'workplace pensions' (even though many pots were indeed built up as workplace pensions) they are not within scope of these governance arrangements.

16. This has led to the anomaly that there is now independent oversight of accumulation products, but once an individual starts to decumulate they fall outside the remit of independent governance. Given that the risks to individuals, and their lack of market power, are at least as pronounced in the decumulation phase we believe the same protections should be extended to them.

Regulation of decumulation providers

17. While most decumulation providers are regulated by the FCA, some providers (offering trust-based schemes) are instead regulated by the Pensions Regulator. We think it is important that all providers competing on the open market are regulated to the same standards: in particular that they are subject to a formal approvals process before they are able to offer decumulation products.

The pension transfer process

18. Once an individual has decided to transfer their pension pot to a different provider to get the decumulation products of their choice they generally expect this to be a reasonably quick and simple process. However, as illustrated in the Government's consultation [paper](#) (Pension Transfers and early exit charges, July 2015) the process can take a matter of months rather than days. During this period the value of the pot may change or the product they are seeking to move to may change its terms or be withdrawn. Our experience of consumers across a wide range of issues suggests that this sort of complex process and timescale is not sustainable and major changes will be needed to create a smoother, faster process.

Our Pension Wise service is currently working well for consumers, with very high customer satisfaction rates

19. Citizens Advice has over 75 years' experience of helping people understand the problems and decisions they face. We know how to talk to people about financial issues clearly and in the context of their broader lives. While our core service relies on the expertise and dedication of over 20,000 volunteers, our new Pension Wise service is run exclusively by professional and accredited guiders.

20. Pension Wise has been designed to give the same guidance across face-to-face sessions (delivered by Citizens Advice) and telephone sessions (from the Pensions Advisory Service, TPAS). We offer face-to-face sessions from 525 locations across England and Wales. Unlike financial advice it does not involve a detailed fact find, a recommendation or a comparison of products from different providers - it helps orientate people about their generic options.

21. Our research shows that when looking for help with pensions, the most important factors for consumers are trust and independence, above other factors such as affordability. Citizens Advice is a highly trusted consumer service and has no commercial interest in pension provision, so is a natural partner for Pension Wise.

22. The service provides guidance rather than advice. It uses a structured approach to take customers through their broad options of:

- Leaving their pot untouched.
- Getting an annuity.
- Taking their money flexibly.
- Taking their pot in one go.
- Mixing their options.

23. Our professional staff deliver guidance sessions and ask clients to complete a feedback survey at the end of their sessions. The results from these surveys show that **99.3% of our clients are 'satisfied' or 'very satisfied' with Pension Wise**. On a scale of 1 to 10 - with 10 being the strongest support - our Pension Wise clients give an average rating of 9.7 in terms of whether they would be recommend the service to friends or colleagues.

24. We know through our core service and through Pension Wise that people often want information about pensions alongside help with other aspects of their lives.

25. For example, in March we published [research](#) showing that last year half of Citizens Advice clients seeking help about private pensions also asked for help on one or more other issues including: employment, tax and benefits, debt, consumer issues or family and relationships.

26. Similarly, our management information from Pension Wise clients also shows that people want support in a range of areas. **27.3% of clients who have had a face-to-face Pension Wise appointment have also booked standard Citizens Advice sessions.** The most common issues are financial capability (**16%** of all our Pension Wise clients also booked a Citizens Advice session on this subject), benefits and tax credits (**12%**), debt (**3%**) and employment (**2%**).

There is room for guidance to develop and offer a more personalised, responsive service. Better referrals from guidance to advice services and changes to the advice market itself could widen access to advice for consumers

Guidance and advice gaps

27. Our experience and feedback from the Citizens Advice service across England and Wales suggests that there are not one but several different guidance and advice gaps. It is widely recognised that the current structure of the market for regulated financial advice means that there are many consumers who are willing to pay for more support than guidance offers but are deterred by the current level of fees for advice. But there are also consumers whose specific advice needs and preferences are not being met; others who are unaware of what guidance and information is available; and others who need help with money or personal matters which go wider than pension. A theme of our suggestions below is that action can and should be taken to fill these other gaps.

Take-up

28. The take up of the face to face Pension Wise service has been steady. We suggest three actions here:

- First, a full evaluation of Pension Wise to understand how it is working for those who use it through each channel, who is not using it and why, and how it can be improved.
- Second, steps to smooth the customer journey and remove unnecessary barriers - such as the recent removal of the requirement for people to wait two weeks before an appointment - should be considered on an ongoing basis.
- Third, a sustained campaign to promote awareness of and referral to the service so that its use starts to become the cultural norm. Local Pension Wise delivery centres could start promoting their service to local employers alongside a national effort to promote the service amongst larger firms. Engagement with employers would help improve referral links to Pension Wise and tackle the advice and referral gap.

29. Many consumers will want to take guidance and then seek additional help from a financial adviser but may struggle understanding what they want advice on or how to find and choose an

adviser. We believe that guidance can address the referral gap and facilitate this transition. In terms of regulated financial advice, we will be publishing research on demand shortly. Our initial findings show that a significant proportion of people with DC pots would be interested in taking financial advice. [Existing data](#) from March 2015 - before the freedoms took effect - suggests that 1 in 5 people aged 45-65 had sought help from an adviser on pensions.

Suitability

30. As stated above, over 99% of customers who use our Pension Wise service have been satisfied or very satisfied with their session. The structured nature of the Pension Wise discussion is a real strength in ensuring that all options are covered.

31. Now that the service is increasingly bedded in we see opportunities to develop the scope of the discussion and to make it more responsive to consumer needs. A number of gaps between existing guidance and advice could be closed if Pension Wise was adapted to make it more responsive for users. These can be summarised in two broad categories: first, offering a more responsive, personalised service and second, being part of a positive consumer journey with the option to use Pension Wise at different points before and after accessing pension savings.

32. **Pension Wise guidance could evolve to offer a more personalised service** which responds better to the circumstances and needs of clients.

- o **Broader guidance:** our experience is showing that some questions - like those about divorce, debt, the new flat rate pension, annual and lifetime allowances, or problems with past mis-selling - crop up in a significant number of interviews. The flexibility to offer guidance on such questions would offer more appropriate support to consumers. And offering clear signpost to further help (such as the Financial Ombudsman Service for mis-selling questions), could improve the outcomes delivered by the service. It would also help to close the root cause gap identified above. The session could also offer more information to interested individuals about how financial advice works to address the referral gap between guidance and advice.
- o **Understanding paperwork:** this can be hard, particularly when different providers use different terminology. In our experience, some customers expect guiders to look at their paperwork, which can be particularly important if they have certain policies which may need additional explanation (such as a with-profit funds, guaranteed annuity rates and S32 buyout policies). The original design of the Pension Wise sessions did not allow for any review of paperwork, as the assumption was that clients would work through this themselves in preparation for their appointment. We believe that Pension Wise staff should be able to give some guidance on how to understand pension statements. This would help improve the first requirement in 'A good consumer journey' above.
- o **Planning tools:** we think that many users would like to be able to use the Pension Wise service to produce their own plan for use of their DC pot. A simple planning tool could be incorporated which (for example) allows them to allocate different sums to different options, get broad indications of how long their money might last in comparison to life expectancy, and to record their personal plan. Guiders have also suggested that they could better explain issues to some clients if they could also give out approved materials, such as print outs from websites on

technical points, pension scams information and in-session visual aids on income drawdown and UFPLS.

33. **Pension Wise should be part of a positive consumer journey** which involves early education for consumers so they can understand pensions throughout their lives and feel empowered to make decisions about their financial future. We believe that access to Pension Wise should be developed in three key ways:

- o **Before the decision:** we support the extension of Pension Wise to 50-54 year-olds and believe that this would support financial engagement. Many clients (especially the 50-54 age group) could benefit if the session offered guidance over their *accumulation* as well as decumulation, to understand how their savings habits could affect their eventual retirement income. Even without this change, if someone visits Pension Wise at 50 to understand their options, but then doesn't want to access their pension until their 60s, we believe they should be able to have a second opportunity to visit Pension Wise when they come to make their decision.
- o **During the decision:** the restriction that consumers can only have one Pension Wise session was a sensible measure when the new service was introduced. Now it is up and running, we believe some clients could benefit from access to a second follow-up session. A small proportion of users would like to be able to have a second discussion to help them finalise their plans. This could for example clarify any further research the client undertook after their initial session, or could allow an initial session to go through paperwork with a client before a second session focusing on their options.
- o **After the decision:** some consumers will want guidance after they start withdrawing their savings. For many people there will no longer be a 'one-off' decision about how to use their pension pot(s). Instead, consumers who opt to keep money invested will need to review their retirement income strategy periodically to ensure it still meets their needs. We suggest the service should be made available to these people, perhaps linked to periodic prompts from providers to encourage them to take stock of their position. This will help guard against the risk that people run out of funds too early or remain invested in assets with a risk profile that no longer matches their appetite.

34. We believe that changes recommended above can be made without Pension Wise straying into financial advice. If this can be achieved, and referrals onto regulated advice can be improved, this will go a long way to helping more consumers get the personalised guidance and advice they need to make the best choices about their pensions.

Affordability

35. Affordability of support services is an important factor for consumers making pension choices. This It is not simply the price charged, but also the consumer perception of how the service will benefit them. Affordability of advice is particularly important for consumers with relatively small pots as fees could represent a significant proportion of their savings. It is also important to remember that few pension savers were expecting to face a bill for advice at the point of drawing their funds so it is important that the overall system is able to provide good support for those who do not now wish to pay fees.

36. Pension Wise is free for all people to use, ensuring that all consumers can access professional guidance about their pension choices. We are currently conducting our own research on consumer access to financial advice which will be published later this year, but [existing research](#) suggests the cost of retirement advice for someone with a £100,000 pot is £2,000.

37. Affordability of regulated financial advice can be improved if consumers are only seeking focussed advice - for example if they are just asking 'which drawdown product' could be better value. As highlighted above, steps to fill the referral gap and the increase the supply of specific types of advice could allow more consumers to benefit from advice.

Independence

38. We are currently conducting research into consumer attitudes to guidance and advice which will be published later in the year. One preliminary finding suggests that independence is a very important factor for DC savers - it is the second only behind trust, and above others such as affordability or getting help from a person rather than an automatic system.

39. Pension Wise clients value highly the independence of the service. Citizens Advice is an independent consumer champion and a highly trusted brand, so users are confident that we will give impartial guidance. We have heard from consumers that they are confident that Pension Wise, without any commercial interests and designed by the government, is independent and will not bombard them with marketing. As one person said: *"I'm fairly careful who I talk to about finance so I tend to stick to things that I know are kosher. I'm fairly wary of looking at some companies that provide support online, there are lots of companies who offer free help and then bombard you. I thought Pension Wise was a trustworthy source."*

40. One of the main concerns about the annuities market before April 2015 was that many customers stayed with their existing provider and did not get the best deal. The new freedoms do not, in themselves, do anything to address this issue. Indeed it is probably harder to compare drawdown products than annuities. Independent Financial Advisers can help people find the best product and they now operate on the basis of fees rather than commission, which increases confidence in the independence of their advice. Retirement products are however often provided directly through a range of other outlets such as pension providers themselves or brokers operating on a 'non-advised' basis. In some cases firms may be getting a commission for 'non-advised' services or simply selling their own product. It is important that where this is the case it is made plain to consumers