

### Pension Wiser?

On the daily commute I now regularly hear the adverts on radio about Pension Wise and the Guidance Guarantee detailing the ‘road map’ to using the new pension freedoms.

In thinking about this I cast my mind back to summer nights where, over a cricket club pint, numerous members of the older (middle age) generation have asked questions along the lines of ‘You work in pensions what should I do with a small pension pot I have?’. In the ensuing conversation the same points are always raised:

1. Why is something so simple so complicated?
2. Everyone is after a cut of my money
3. It’s not worth the hassle
4. Why can nobody seem to advise me?
5. I don’t trust anybody

Of course the government is attempting to address point 1 in introducing the flat rate state pension but I would argue the same complications in decision making exist in relation to an individual’s personal pension provision.

Everything we know about behavioral economics tells us that breaking complex subjects down into something ordinary people can understand is tough, and that the very significant trust issues (Points 2 and 5) are almost impossible to overcome. This government, and every government to come, could spend endless millions on education, information and services, but the bottom line is that ordinary people are cynical about any point where their personal finances interact with either government or the financial establishment, and they understandably perceive Pension Wise as part of this.

I doubt these 5 points are unusual, so does Pension Wise address the general misgivings people have of both the pensions industry and the wider financial services?

In reality the fair answer is that it’s probably too early to tell, although there might be a case for saying that the service mainly benefits people who already had a thirst for information and those already willing and able to pay for professional advice. Whether the service engages with the less financial literate is debatable, and indeed one of the first sentences that hits you is ‘Pension Wise won’t recommend any products or tell you what to do with your money’.

So who does the normal, cynical, man on the street trust?

- an IFA? Doubtful - see point 2
- a pension provider - again see point 2 and the regulatory limitations imposed under point 4
- their employer/ pension scheme trustees – maybe, worth further thought?

### Radical idea for improvement?

Some employers already offer financial advice as part of a flexible benefit package - the idea of enforcing it is a progression from this idea and the cost of provision could be spread between the 3 stakeholders (government, employer and pension scheme). This is not withstanding the obvious cost benefit to the Nation’s finances of improving an individual’s private pension provision, thus reducing their reliance on the State.

The offering could be structured around pension reviews at certain ages, becoming more regular as individuals approach retirement. It’s widely acknowledged that individuals reviewing their pension provision after the age of 50 (which is the normal process), have already missed the boat with regard to necessary savings or potential investment return, so promoting earlier engagement can only be to everyone’s advantage. The idea also has the attraction of educating individuals over the course of their working lives rather than over the course of an afternoon late in their fifties. Employees not only get advice from professionals but are also in an environment where the ‘water-cooler factor’ kicks in, getting people talking and increasing overall financial awareness within the wider workforce.

I accept others will have different ideas and there may be equally strong arguments against employer/trustee intervention in the advice process, but I can’t accept something most members are likely to perceive as just another box-ticking exercise as the absolute best route to long-term security in retirement. I also accept that the industry and policy makers need to let the dust settle on the 2015 changes before we have a really clear feel for whether members are making those crucial informed decisions, however, the drive for improvement must start now to make things work for the future. ■



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