TISAtalk 27th March 2014

GUILDING LIGHT

The revolutionary budget passed by George Osborne which turned the annuity market on its head could push retirees towards '*paid for'* financial advice. The freedom of choice brought by the removal of compulsion to purchase an annuity brings lots of flexibility and choice for consumers in their retirement decisions.

However, will approaching retirees behave in the same manner post this revolution? In a world of compulsory annuity purchase the FCA's Retirement Income Market Study saw the regulator examining consumer focused digital technology at the heart of their approach to retirement income reform. The real concern here is that currently 52% of annuity sales are non-advised currently, which is alarming considering the complexity of this area and the need to ensure choices are correct to support the remainder of a saver's lifetime. Under the annuity regime consumers were clearly missing out on significant amounts of money by not considering all options available and taking the appropriate advice. Will the same pattern continue now, where annuities are not compulsory? With their new-found flexibility of choice, will consumers still continue to guess the best route to a comfortable retirement by making decisions on their own?

In order to ensure consumers make the appropriate decisions, the budget contained proposals for every retiree to have access to free impartial face-to-face advice. However some confusion has arisen as George Osborne used the word *advice* and the budget documents use the word *guidance*. Those who are currently building D2C propositions know there is real difficulty in interpretation of what the regulator requires from a compliance perspective between guidance and advice.

This advice mechanism will be funded by an initial £20 million from the government and a levy on pension providers (although the detail of this has yet to be decided) together with an expectation to remain in the annuity market from those providers.

The use of the words 'free' and 'guidance' would indicate that not many IFAs will be the schemes direct beneficiaries but I believe they are still likely to find enquiries and referrals increasing. IFAs should not be frightened of calls for free advice as this gets people interested in the subject, which has to be good for the industry and consumer understanding. We should see people starting to ask their pensions questions earlier and perversely the effects of a right to free advice at retirement will be more people looking for paid for advice years before the actual retirement date, if they get a grasp on choice and complexity.

It is logical that free advice would not be suitable for a high net worth individual as invariably they will be looking for more than a 30 minute conversation and will need someone to hold their hand through a complex planning scenario for the remainder of lifetime. If you consider drawdown, it is not just about how it is effected at the outset but how it runs for the full duration.

If advice or guidance is to be delivered by providers, the industry has been there before and at that time it did not work. It is extremely difficult for a product provider to give a broad enough range of advice to look across the market.

In Australia a similar regime is already in place, giving savers freedom to control their pension pots and its ultimate investment where people are free to spend the whole pot. The Australian experience shows that savers do take their whole funds but don't buy the Lamborghini because they have worked out that if you save your whole life to build up a retirement fund there is no point blowing it all at once. It will be interesting therefore see how IFAs and annuity providers will be able to engage and deliver the guidance and advice stated in the budget. We at TISA will be watching with interest and looking at where we can support this within our Savings and Investment Project and Retirement Policy Council work.

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