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New study calls for fresh thinking for retirement market

- Decumulation market needs to be viewed as a market in its own right
- Onus on individuals to make adequate provision for retirement income
- Independent financial advice in the workplace to be better promoted and funded
- Clearer guidance for those advising individuals in and at retirement

A landmark study of Financial Planning through Retirement from the Association of Independent Financial Advisers (AIFA) and Prudential UK, outlines changes required by Government, retirement product providers and independent financial advisers to ensure people in the UK maximise their income and wealth in retirement. The study was overseen by an Editorial Board that included Rt. Hon John Gummer MP, Independent Chairman of AIFA and Lord Lipsey, ex-Chairman of the Financial Services Consumer Panel.

The report is being launched today at a Whitehall event with Shadow Pensions Minister, Nigel Waterson MP. In the face of increasing longevity and the scaling back of defined benefit pension schemes the report calls for an independent review of the decumulation market, where people use their accumulated assets to finance their retirement. It also recommends that Government and regulators must share a common approach and objectives and recognise the importance of the market in its own right.

The study makes a number of recommendations and identifies key concerns with the decumulation market. Greater investment needs to be made to help those approaching, or in retirement, and those advising them. First, how people actually manage their finances, rather than how experts would like them to manage them, and the encouragement of greater responsibility for personal finances. Employers and Government should play a greater role to encourage independent financial advice in the workplace. The existing £150 per annum tax exemption for advice to employees should be better funded, facilitated and promoted. Education for consumers, including a glossary of terms, and clearer guidance for advisers. To address the savings choices of individuals, all education and guidance tools must be flexible enough to accommodate the individual choices of consumers. And finally, recognition that the decumulation market is a complex market in its own right. Not least, because retirees go through a number of 'financial phases' that require different solutions.

Chris Cummings, Director General, AIFA, said: "There must be an holistic approach to the decumulation market from industry, Government and regulators to ensure that more people maximise their income and wealth in retirement. We must make sure that consumers can access good, professional advice when needed and that the industry can provide access to a wide range of services and products to utilise the variety of assets retirees now have.

"It is clear that consumers will understand the risks and rewards of decumulation

products better if they are described in consistent language. Our research shows that more than half (56%) do not understand the language used when talking to people in financial services. That is why we are calling on the pensions industry to work together to develop a glossary of terms in plain English that guarantees simplicity and clarity for consumers. However, we must recognise that consumers want access to advice not just endless information. That is why they turn to IFAs. Government and employers must do more to help consumers receive this advice."

Barry O'Dwyer, Managing Director, Retail Life and Pensions, Prudential added: "The population is getting older and people are living longer. For most people, investing a relatively small amount of time in seeking out financial advice about retirement is one of the best decisions they will ever make. This applies to pensions and annuities, but also increasingly to non-pension wealth including property, where we are calling on Ministers to ensure that consumers can release adequate amounts of equity from their home without losing means-tested benefits.

"The report also suggests that industry and regulators need to act on the insights of behavioural finance. It is a fallacy, for example, for regulators and product providers to assume that consumers diligently read all the information targetted at them and respond in a rational manner. The reality is that such communications are often either ignored, or drowned out by other news. One of the lessons of behavioural finance is that the workplace provides a cost-effective channel to engage employees. To realise this potential the report calls on the Government to provide a more generous tax break for workplace advice."

Summary of recommendations:

- Regulation and legislation should be based on how consumers behave rather than how perfectly rational consumers would behave
- There should be a review of financial capability programmes to ensure they are improving financial education levels as cost-effectively as possible
- Independent financial advice in the workplace should be better promoted and funded by the Government and employers
- Clear guidance and training is needed for those who provide decumulation advice
- There is a need to continue to develop and improve products, which have a broad band of suitability that can be understood by the consumer
- Product providers should adopt a consistent approach to product features, product suitability, product comparisons, and risk and rewards. An industry standard glossary of terms should be agreed
- Regulation should be amended to allow greater consumer access to advice on equity release
- The level of capital disregarded for retirement means-tested benefits should be reviewed on a regular basis to ensure the rules do not penalise equity release
- The Government should establish an independent review of the rules requiring pension income to be secured by age 75 to ensure they appropriately balance the needs of retirees with the interests of taxpayers
- A critical success measures for the RDR should be that it increases the availability of advice and guidance and raises the level of engagement with consumers.

- We recommend the Government commissions an independent review aiming to deliver institutional arrangements that ensure a joined-up regulatory and public policy approach to decumulation

The project was overseen by an Editorial Board that included representatives from the parliamentary, business, consumer and academic communities:

- The Rt Hon. John Gummer MP (Independent Chairman, AIFA)
- Lord Lipsey (ex-Chairman of the Financial Services Consumer Panel)
- Professor David Blake (Director of the Pensions Institute, Cass Business School)
- Allen Rosengren (Joint Chief Executive, Lighthouse Group)
- Mark Lund (Chief Executive Officer, Money Portal)
- Chris Cummings (Director General, AIFA)
- Barry O'Dwyer (Managing Director, Retail Life and Pensions, Prudential)
- Tom Boardman (Director, Retirement Strategy and Innovation, Prudential)

Research to support the study was conducted by a team of specialist financial services consultants from Watson Wyatt.

The full report is available here:
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Notes to Editors:

About AIFA

The Association of Independent Financial Advisers was launched in September 1999. Our role is to effectively lobby the Treasury, FSA, government, the EU and other opinion formers and policymakers to ensure the regulatory and business environment is positive toward members. It is AIFA's objective to play a critical but constructive role within the regulation process - offering insights from the "front line" of the market. AIFA is a non-commercial, not-for-profit trade body.

About Prudential UK

Prudential is a leading provider of retirement savings and income solutions and life assurance in the UK. It has a unique combination of competitive advantages including its significant longevity expertise, multi-asset investment capabilities and track record, brand and financial strength. These put it in a strong position to pursue a value driven strategy.

Editorial Board Members' Biographies

The Rt Hon. John Gummer MP Chairman, AIFA

John Gummer was Margaret Thatcher's Chairman of the Conservative Party, and for 16 years a minister, becoming Minister for Agriculture, Fisheries and Food, and then Secretary of State for the Environment. His experience as an international negotiator has earned him worldwide respect both in the business community and among environmentalists.

Previous to his ministerial career he was a successful businessman and Chairman of a medium sized plc. In consecutive years, the BBC unprecedentedly awarded him the title 'Parliamentarian who did most for the Environment Internationally', while the NGO community called him 'the best Environment Secretary we have ever had'.

Since leaving office he has held the positions of Chairman of the International Commission on Sustainable Consumption, Chairman of the Marine Stewardship Council and Non-Executive Director of Kidde Plc. He is currently Chairman of The Sancroft Group, Chairman of Valpak Ltd. and Chairman of Veolia UK Ltd. He is also the Non-Executive Director of Sistema-Hals, a leading real estate development company in Russia.

In December 2005 David Cameron appointed him Chairman of the Quality of Life Commission. The Quality of Life report, "Blueprint for a Green Economy", was launched in September 2007.

He has been the independent Chairman of AIFA for six years.

Professor David Blake Director of the Pensions Institute, Cass Business School

Dr David Blake is Professor of Pension Economics and Director of the Pensions Institute at Cass Business School, London; Chairman of Square Mile Consultants, a training and research consultancy; and Co-Founder with JPMorgan of the LifeMetrics Index. Consultant to many organisations, including JPMorgan, Merrill Lynch, Deutsche Bank, Union Bank of Switzerland, Paribas Capital Markets, McKinsey & Co., the Government Actuary's Department, the Financial Services Authority, the Department for Work and Pensions, HM Treasury, the Bank of England, the Prime Minister's Policy Directorate, the International Monetary Fund and the World Bank.

In June 1996, he established the Pensions Institute. The Pensions Institute undertakes high quality research on all pension-related issues and publishes details of its research activities on the internet (<http://www.pensions-institute.org>).

His recent books include *Pension Schemes and Pension Funds in the United Kingdom*, published by Oxford University Press in 2003, and *Pension Economics and Pension Finance*, both published by Wiley in 2006. David is also a member of the Academic Advisory Board of the Behavioural Finance Forum founded by Professor Shlomo Benartzi of UCLA.

Tom Boardman

Director, Retirement Strategy and Innovation, Prudential UK

Tom has worked for Prudential for almost 30 years. In his current role as Director of Retirement Strategy and Innovation for Prudential UK, Tom is responsible for shaping Prudential's strategic thinking and positioning in the savings, pension and retirement income markets in the UK.

Tom is Fellow of the Institute of Actuaries. He has recently been elected an Honorary Visiting Professor at the Cass Business School. He is a member of the Life Insurance Council at the Association of British Insurers. He is also a member of the World Economic Forum's Expert Group supporting the Financing Demographics Shifts project.

Chris Cummings

Director General, AIFA

Chris Cummings was appointed as Director General of AIFA on 1st June 2005. The role focuses on: representing the professional advice community to bring about fair and proportionate regulation and a better business environment for intermediary firms so they may serve their clients.

Chris joined AIFA in 2003 to form AMI (the sister association of AIFA, for mortgage intermediaries).

He was previously Marketing Director of Sun Bank plc and a management consultant at PwC. Prior to this he was with PPP Healthcare and at Mercer Fraser.

Lord David Lipsey

David Lipsey is a Labour peer. He has had a wide range of experience as a regulator (including at the Personal Investment Authority and the Advertising Standards Authority); as a company director and chairman (at the Tote and Impower); as a journalist (as deputy editor of two national newspapers and editor of a social affairs weekly) and as a public policy expert (as chair of the Social Market Foundation think-tank and as a member of three official government inquiries).

Mark Lund
CEO, Money Portal

Mark has more than twenty five years experience in UK financial services. He is CEO of the Money Portal Group, the UK's largest independently owned IFA group. Before joining Money Portal Mark was Chief Executive of leading UK wealth management company St. James's Place plc. Prior to this he was Chief Executive of JP Morgan FundsHub. Earlier in his career he was a Director of the investment company, Henderson Investors plc. He also had a stint on secondment to Virgin Direct as CEO.

Prior to this he was a management consultant with Booz Allen & Hamilton. He is a Fellow of the RSA, an affiliate of the CFA and a Fellow of the Securities Institute and holds a Masters degree in Transport Economics from the University of Leeds.

Barry O'Dwyer
Managing Director, Retail Life and Pensions, Prudential UK & Europe

Barry was appointed as Managing Director of Prudential's Retail Life and Pensions business in January 2009. He is responsible for the strategic development and growth of its pensions, investments, and retirement income products.

Barry joined from HBOS Financial Services where, as Products and Marketing Director, he was responsible for investment, pension and protection products through the Halifax, Bank of Scotland and Clerical Brands.

He began his financial services career at Standard Life and during 19 years with the company he held a number of senior management positions in both the UK and Ireland.

Barry is a fellow of the Institute of Actuaries.

Allen Rosengren
Joint Chief Executive, Lighthouse Group

Allen joined on 6 May 2008 as a result of the merger with Sumus plc. Allan co-founded Falcon Group plc in 1983 with Julian Telling who he had met whilst working at a national firm of financial brokers. During Falcon's early years Allan developed a high net worth clientele and was instrumental in attracting high quality advisers to the business.

Allan is focused on the enlarged Group's move to funds under advice and administration, as well as taking responsibility for the Group's SIPP business, City Trustees.