



Are constraints of Financial Guidance & Claims Act thwarting ambition to make Pension Wise use ‘the norm’?

On the Act’s third anniversary, Just Group asks if the letter of the law is undermining its spirit

Lack of progress at meeting the government’s ambition to make Pension Wise use ‘the norm’ may be due to constraints imposed by the Financial Guidance & Claims Act which was introduced three years ago this week to increase use of the free, impartial and independent guidance service.

The Financial Conduct Authority (FCA) last week launched a consultation on its ‘stronger nudge’ measures that would oblige providers to ensure pension savers seeking to access benefits had either received guidance or opted out.

Stephen Lowe, group communications director at retirement specialist Just Group, said that although the proposals met the letter of the law, they would only have a marginal effect because evidence from the pilot trials showed most people will have already made up their minds to access their cash.

“The nudge is a backstop which is triggered only when the saver makes an application to access their benefits. That’s at the end of the journey when attending a guidance session is more likely to be seen as a hurdle rather than of help.”

He said that although there is no reason providers or the FCA cannot shift the guidance focus to earlier in the retirement journey when people are still open-minded about how best to use their pensions, it was unlikely to happen without a clear signal of support from the government.

“They could have tested the effect of automatically pre-booking pension savers into guidance sessions from age 50 at the same time as they piloted the ‘stronger nudge’. The likelihood is streaming people into sessions would have achieved a positive effect on a much wider group of people and at a more appropriate time.

“However, it wasn’t what the law called for so was not considered. The FCA knows the effect of the ‘stronger nudge’ is likely to be limited and is asking for more ideas.”

Stephen Lowe said he hoped that the inquiry into the progress of the pension freedom reforms by MPs on the Work and Pension Select Committee would press the government on whether its ambition to make Pension Wise use the ‘norm’ is realistic given the constraints in the Act.

“If the Act is doing little to achieve the government’s own wider objective then it has a couple of choices,” he said.

“It can reiterate its vision of a much higher level of guidance usage and do what it can to ensure the FCA has the motivation and the tools to deliver on the vision. Or it can give up on its ambition to increase guidance usage which will leave hundreds of thousands each year without the support they need to make good decisions and avoid scams.”

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Notes to Editors:

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