



Women. Men. Different. Equal.
Equal Opportunities Commission

Response to the Treasury

Thoresen review of generic financial advice

April 2007

1. The Equal Opportunities Commission (EOC) is the Government's statutory body charged with eliminating sex discrimination and ensuring the promotion of gender equality. We welcome the opportunity to respond to this review of generic financial advice. The EOC's work in this area is currently focused around the issue of advice needs as raised by the proposed introduction of Personal Accounts (PAs) which are aimed at the target market of low to moderate earners who are not currently saving for their retirement.
2. The EOC is highly supportive of the Government's forthcoming legislation on PAs and, whilst we do not have direct experience of delivering financial advice or information, our work in this area shows that women's and men's differing needs have to be carefully considered in order to ensure the success of this - and indeed many other - schemes.
3. In devising a strategy for generic financial advice the Treasury will be aware of its obligations under the gender equality duty that came into force in April 2007. It is a new statutory requirement on public authorities to:
 - eliminate unlawful discrimination and harassment on the grounds of sex
 - promote equality of opportunity between women and men in all of its functions. Functions include policy-making, service provision, employment matters, and any statutory discretion and decision-making¹.
4. We recognise that the Thoresen review aims to address a much broader context than solely pensions saving, but improved generic financial advice could improve the lifelong financial position of individuals, in particular those unable to access regulated financial advice. So many of the issues we have considered in the context of PAs may have relevance to the wider financial market you are reviewing.

BS1. Who should generic advice aim to serve including a view on segmentation

5. The generic advice strategy, including for PAs, needs to carefully consider the differing needs of men and women. In particular the Government's own gender impact assessment² of the proposed reforms identified low paid women as a key target group for PAs:
 - Over one third of the target group are women earning between £5k and 15k per year
 - 43% of all female employees earn between £5k and £15k, compared to just over 20% of male employees
 - Women have lower access to occupational pensions³
 - Women often work in sectors of the labour market without decent low cost personal pension provision.

¹ Further information is available on our website, www.eoc.org.uk/genderduty

² <http://www.dwp.gov.uk/pensionsreform/pdfs/GenderImpactAssessment.pdf>

³ Women, especially those working part-time, may be less likely to have access to a workplace pension scheme than men. Ten per cent of female part-time workers report that they are not eligible to join their employer's scheme compared to 6 per cent of female full-time and 5 per cent of male full-time workers.

- Women have lower average job durations, and so lack the consistency in saving which can bring average management charges down

BS2. Are there groups it should not aim to serve and how might they be excluded or steered away?

6. As with PAs, which are to remain firmly targeted at those excluded from the current pension provision, the same focus needs to be maintained with the provision of generic advice. It should be targeted at those unable to access regulated financial advice, i.e. the lower paid (often women), those with lower financial capability, for whom good generic financial advice could make a significant difference to their long term financial stability.

BS3. What are the best ways of reaching the target market (i.e. those most vulnerable to the consequences of poor decision making?)

7. ***The delivery routes for generic advice need to be carefully considered, to ensure that they have as wide a reach as possible***, for example delivery solely through employers would exclude those not in employment. The delivery route also needs to be appropriate to the circumstances of the individual, e.g. information about claiming carers' credits for state pensions could be targeted through carers' organisations or at health services. With an issue like pensions, where the accumulation phrase is very long, and people's circumstances are likely to change over time, generic advice needs to be available at multiple points in time and not limited for an individual. This also affects both the routes taken to provide that advice and to alert people to the availability of the advice.

CS1. To what extent should generic financial advice be free at the point of delivery?

8. ***Advice provision needs to be affordable and readily and easily accessible***. For many low paid women, paying for financial advice simply is not realistic, and targeted free generic financial advice may be the best approach.

CS3. How can the wider benefits of generic financial advice to individuals and society as a whole, be quantified?

9. ***Quality generic advice could help individuals improve their long-term financial prospects and financial stability***, in particular for those on the lowest income this could be the difference between a future in poverty or one when they can afford an acceptable standard of living.
10. So success for pensions provision will mean individuals taking responsibility for saving for their own retirement through PAs or other schemes, and achieving an adequate independent retirement income. Consequently individuals will have less need for the safety net of means tested benefits, thus reducing long-term costs to Government.

DS1. How can consumers be encouraged to improve their financial capability and take an active interest in their personal finances?

11. **Individuals will only engage with generic financial advice if it is relevant to the realities of the lives they lead.** With women's working and family lives being significantly different to those of men, we need to ensure that women's complex working lives are taken into account in the design of a system so it fully recognises that different people need different information.
12. The information also needs to be **based around key trigger points** in people's lives when specialist information may be required, e.g. starting work for the first time; divorce; returning to work after having a child; giving up paid employment to become a carer; the point of retirement. Giving examples that are based just around 30 or 40 years consistent earnings and thus savings patterns will not be relevant to most women, who need to understand the implication on the potential rates of return for them of e.g. gaps in contributions when not in paid employment or several years lower rate contributions when working part time.
13. **All pensions strategies should be based upon the premise of financial independence for each individual.** Everyone needs to take responsibility for their own financial independence and their own financial future, rather than relying solely on the finances of a partner, or anticipated joint finances for your financial security in retirement.⁴ The government accepted the Pension Commission's recommendation that in response to social developments since the Beveridge settlement future pensions arrangements should be based on individual responsibility.
14. **Generic advice on pensions also needs to be linked to a strong program of combined pension forecasts.** Including state pensions information will help individuals understand the base load on top of which they are saving, encourage individuals to think about the need to claim e.g. carers' credits if relevant, and to save more for their future wherever possible.. This constant reminder process is of particular importance to women because of their current greater dependence than men on state pension provision in retirement.
15. **Generic advice or information will be vital in encouraging individual to save more than just the auto-enrolled level into PAs.** Individuals need to be clear that saving only at the proposed default rate in a PA will not lead to a comfortable retirement.
16. The information and advice strategy round PAs needs to include those working for or considering working for employers offering alternative schemes, helping individuals understand and value the additional contributions that their employer, or potential employer is prepared to make. The EOC supports work that the National Association of Pensions Funds is doing to develop a "quality mark" for alternative schemes, which could

⁴ Whilst there is wide variation in how households divide roles and responsibilities there is evidence that it remains quite common for financial planning for retirement to be split along gender lines with men playing a more significant role in building retirement savings in couples. This type of arrangement is not infrequent even among younger couples *Financial Planning for Retirement: Women's Perspectives*, DWP Research Report No 247, 2005

provide a simple way of communicating the different features and benefits of their scheme.

17. **Information will be required at the decumulation phase** when individuals have to purchase an annuity or, if their savings are below the trivial commutation threshold, decide whether to purchase an annuity or to take their savings as a lump sum. EOC commissioned research from the Pensions Policy Institute (to be published in June) will look at the implications of this decision for individuals.
 18. The EOC is also involved in the Treasury/DWP annuities review and hopes that this will lead to a strong, guided process for annuity purchase from PAs and other pensions to enable people to decide what annuity option is the most appropriate for them. **This guided process needs to apply to all annuity purchase, not just those from PAs.**
 19. An issue of particular concern for the EOC is the decision that individuals have to make as to whether a single or joint life annuity is most appropriate for them. We are concerned that individuals are not fully aware of the implications of this decision and many dependants may not be aware of the decision that their partner is taking. Both parties should be involved in the decision to purchase a single life annuity, and be made fully aware of the consequences of their decision. Therefore **generic advice may need to cover wider financial issues that those relating directly to the finances of the individual**, so that couples can both discuss and understand the implications of their or their partner's annuity choice.
- **The EOC therefore recommends that the new PAs NDPB should research and report on the holistic information and advice needs of all individuals, taking into account gender differences for the new pensions system.**